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A PLAIN EXAMINATION OF SOCIALISM

GUSTAVE SIMONSON, M.A., M.D.

UC-NRLF



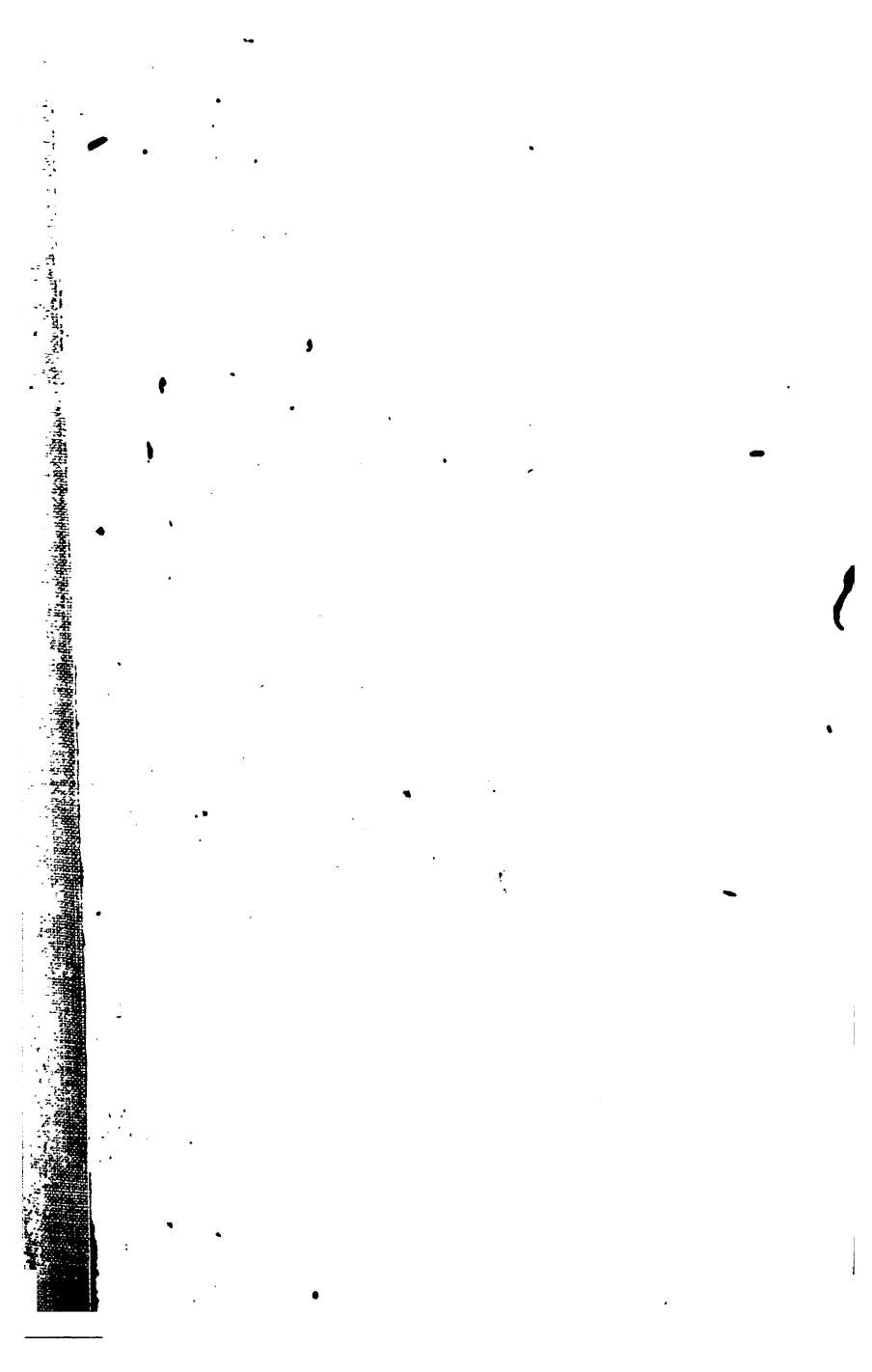
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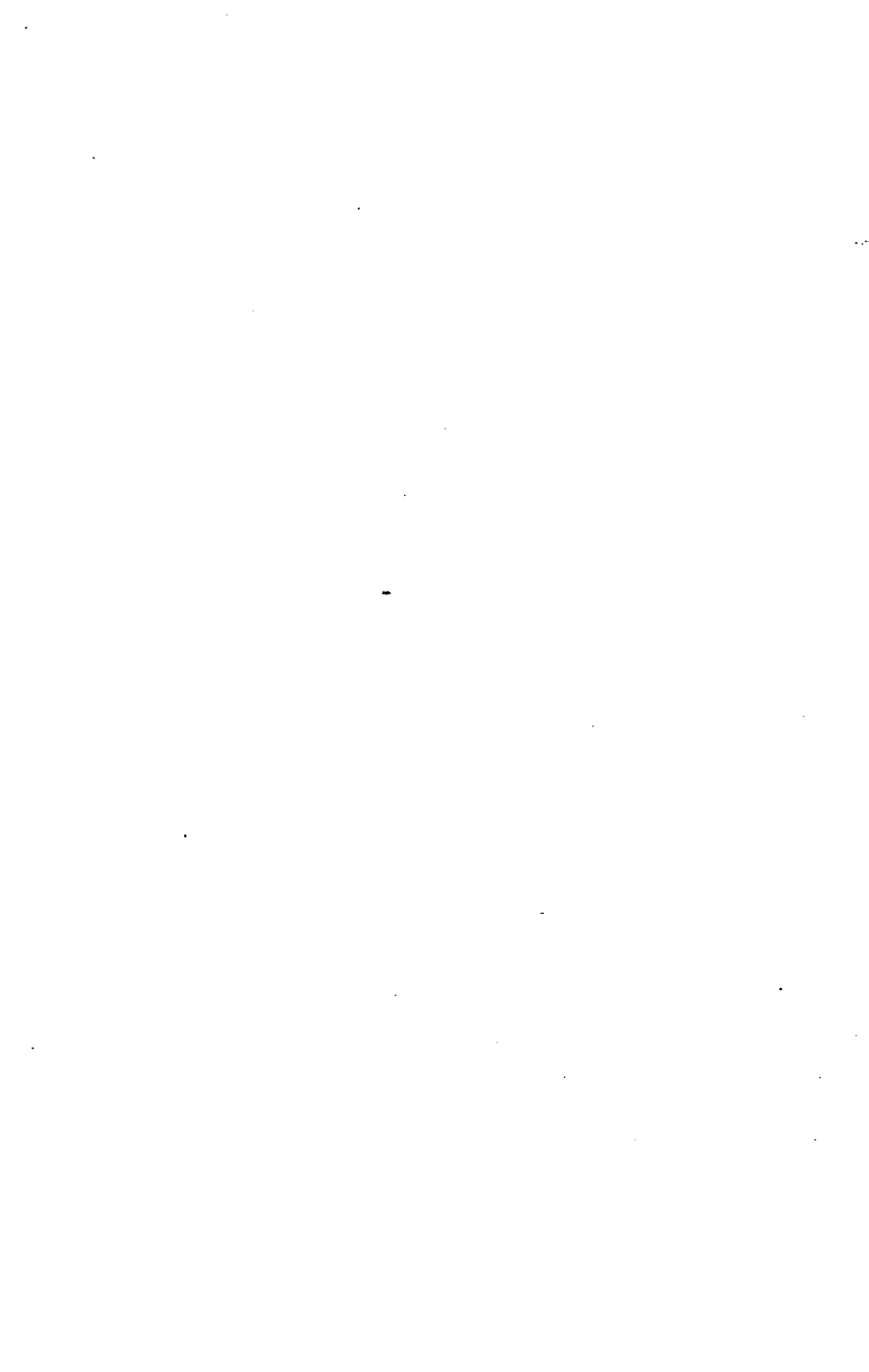
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A PLAIN EXAMINATION OF SOCIALISM



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BY
GUSTAVE SIMONSON, M.A., M.D.
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1900

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To
COL. EDWARD C. JAMES
OF THE NEW YORK BAR

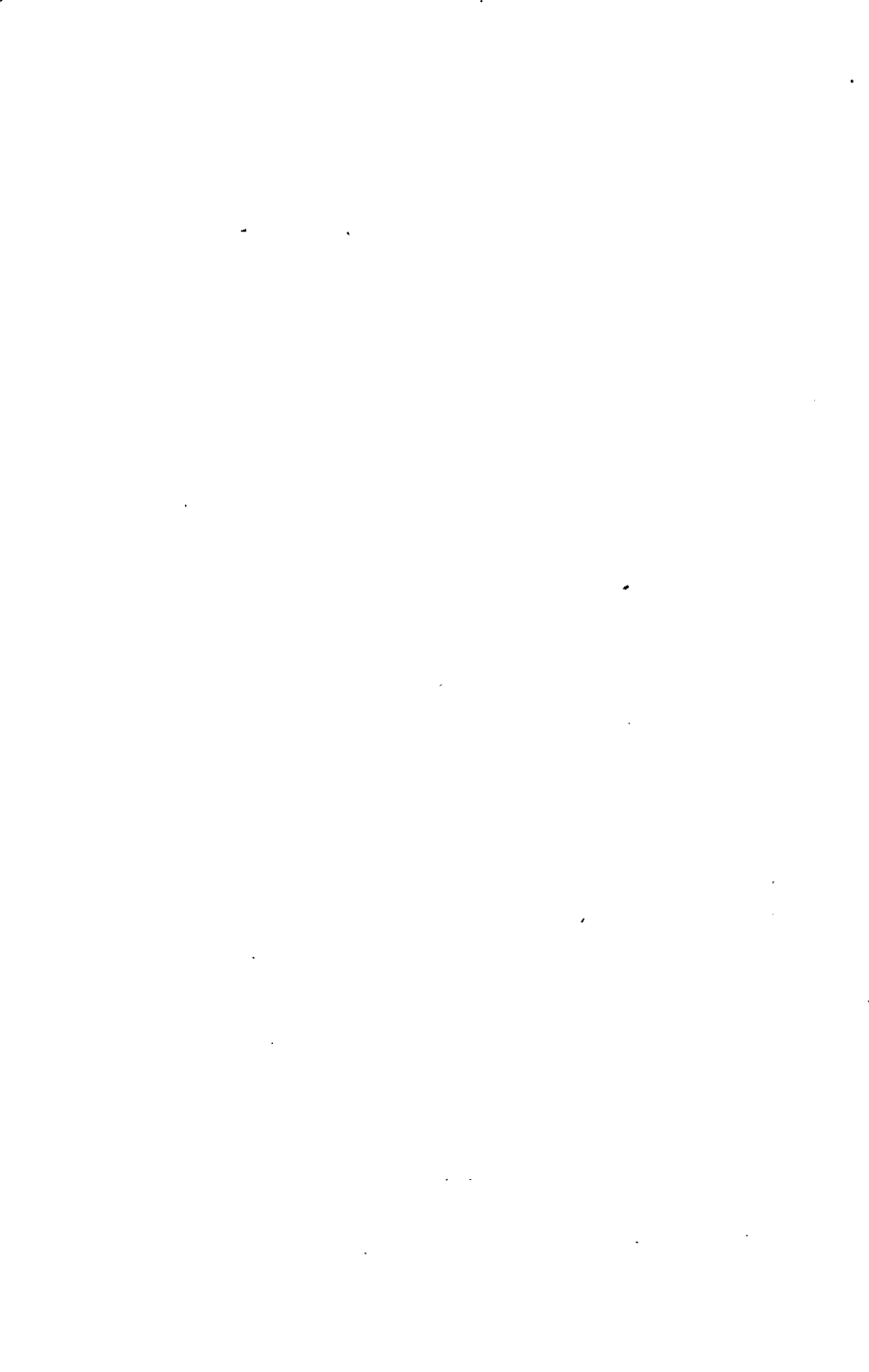
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REFSE

To
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PREFACE

THE present work is an attempt to examine and refute the theories of socialism by taking up their doctrines and proposals, step by step, and pursuing them to their logical conclusion. I believe that if the evils of socialism are ever to be prevented without the expensive method of a possible eventual trial, this can only be accomplished by a diffusion of sound economic education among the great masses who, after all, are the ultimate arbiters of our social and political future. Unfortunately, political economy as it is now treated by publicists and professors has become so clouded by masses of irrelevant erudition, undemonstrable theories, and unpractical abstractions, that the few simple principles which really lie at the base of economic life are either brushed aside or simply ignored. The result is that, instead of properly recognising these few fundamental principles and emphasizing their force, political economists have succeeded in elevating the science of political economy, so-called, into a mass of miscellaneous detail and ill-assorted learning, embracing history and statistics and ethics, and almost everything else. Such materials are hardly calculated to furnish society with protective arguments against the spread of socialism. In fact, the modern school of

"historical" political economy does not seem to be on such very bad terms with the socialists after all. Many of the political economists of the "historical" school seem to regard socialism as the ultimate form of society, which will be attained gradually in the ordinary course of what is complacently called "social evolution." Of course, the necessary "evolution" of the self-interested type of man into that beautiful type of perfected humanity known as the "altruistic" man does not disturb our comfortable theorists. If the simple facts of human nature and sound principles of economics were properly appreciated, and their full force in our social organism properly explained, then the task of the opponents of socialism would, in my opinion, be materially lightened. This I have attempted to do in the following pages.

In Book I., I state certain fundamental facts of human nature, as well as certain economic principles which I believe to have the character of immutable natural laws. In Book II. is given a brief description of the present system of human society with respect to its economic dealings; the socialistic attack on this present system, the weakness of the objections thereto, and the insuperable difficulties of remedying them. In Book III., we step into the socialists' camp, take up their general proposals, examine them in detail, and show what, if anything, they must lead to. I have endeavoured to treat the subject strictly from an economic standpoint, believing that socialism in any form can only be combated successfully by presenting valid economic arguments against it.

G. S.

NEW YORK, *July*, 1900.

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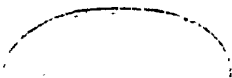
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A PLAIN EXAMINATION OF SOCIALISM

PART I

ESSENTIAL HUMAN AND ECONOMIC FACTS

CHAPTER I

THE ESSENTIAL HUMAN FACTS

IN a consideration of Socialism as a practical form of society, it seems desirable at the outset to emphasize certain primary and essential facts. These facts are so simple and self-evident that they would require no discussion whatever in a serious book, were it not for the persistent and complacent attitude of socialists, who proceed in their sweeping proposals and revolutionary schemes as though these fundamental principles had no existence. And yet these facts are so important, so uncontrollable, so immutable, and exercise so boundless and decisive an influence on our social and economic life, that at the risk of some tediousness in the beginning, we shall devote a few pages to their consideration.

I.—The Intellectual, Physical, and Moral Inequalities of Men.

The first primary and essential human fact to which attention must be directed is the inherent and natural inequality between men. This inequality is threefold: intellectual, physical, and moral.

Men are naturally unequal in intellect. Mental inequality is subject to artificial modification only to a very limited degree; and, furthermore, this inequality is decidedly manifest even in those branches of activity for which two or more persons are specially adapted. Human capabilities show appalling gradations of power from the ordinarily dull and stupid to those gifted with the highest genius, and this phenomenon is noticeable in all spheres of human activity. Given the same opportunity to acquire skill and education, the same physical and moral powers, the same resources, and yet men will differ enormously in their productive capacity. Some persons are by nature fitted only for the most inferior and most simple kinds of labor; and that, too, in spite of all opportunities for education, and even when following their own natural bent. This may easily be seen in families in which a number of children are brought up with equal advantages, and one of them fails from no other apparent reason than that of sheer mental torpor. Unless such a person is, by the circumstances of fortune, independent of labor for his livelihood, he naturally falls into an inferior position in the social order. On the other hand, it must also

be admitted that many persons of splendid natural parts are obliged to labor in inferior fields, because they have had no opportunity to develop and educate their powers. Undoubtedly, were opportunity equal for all, and were all men to start on equal terms, many who are now at the bottom of the social scale would be at the top. This inequality of opportunity is painful to contemplate, and may furnish material for the preacher or the moralist. But the fact of inequality of *opportunity* does not in the slightest degree affect the truth of *natural* inequality of capacity; for no matter how equal we might artificially make opportunity, mental ability, under the most artificial system, would continue to subsist with enormous inequalities. As far as the present system of society is concerned, the element of chance works in favor of the inferior capacities.

Just as men are by nature unequal in mind, so they are by nature unequal in body; some are born with naturally strong and vigorous constitutions, while others are weak and delicate from birth. Some portion of these differences may, of course, be diminished by proper care and training, and many a person who has started with a weak body has become, in after life, an athlete. But the great mass of physical inequalities between men are due to nature alone, and would remain, no matter how carefully we reared and trained our children. Were this fact not true, it would be possible to train all persons to perform the great feats of strength and endurance which we admire in the typical athletes, and all persons could be trained equally well for all such trades as require great

physical power ; but our common experience of life shows us that this is impossible. Only a limited number of persons are fit to become blacksmiths, and just as lack of requisite mental power may bar an individual from one trade, lack of requisite physical power may bar him from another. Thus, physical inequality has also great influence on economic life and on individual production. Given equal opportunities, equal mental and moral character, and the capacities of individuals must vary enormously, owing to the physical inequalities existing between man and man.

Men are by nature morally unequal ; that is, they differ greatly in character. We all know that the personal dispositions of men vary greatly even when they have been subjected to the same moral influences. One man is naturally steady, another is shiftless ; one is reckless, another is discreet ; one is temperate, another is a tippler ; one has a high sense of honor, another has few scruples ; one is active, another is lazy ; one has a strong sense of moral responsibility, while another is indifferent to his duties. In spite of all that moralists have done throughout the ages, vast moral differences exist in different human beings—differences which are but slightly and gradually modifiable in course of time. Accepting mankind as we find it, with all these important differences of character in the individual, the conclusion is inevitable that these moral variations also have a decided and remarkable influence on the productive capacities of different individuals. Even were all men mentally and physically equal, the great differences of moral

character alone would doubtless have an enormous influence on their actual productive capacities, which would thus vary according to the presence or absence of the necessary moral qualifications requisite for each calling.

The essential and vital fact to be borne in mind is, that men are very unequally endowed by nature with intellectual and physical powers, and moral character. Now, differences in mind and body and character are not, and never can be, subject to legislative influence. No act of parliament can order a man to be intelligent, or strong, or virtuous. All that society can do is to attempt to give equal opportunities to all for mental, physical, and moral development; and were this carried out even to the extremest conceivable point, the natural inequalities would persist, and might even become still more marked; for nowhere do brains, muscle, and backbone so vigorously and aggressively assert themselves as where there is equal opportunity and free competition.

II.—*Selfishness, Benevolence, Frailty, and Antagonism of Interests.*

Another matter of the first importance in the economic life about us is human nature—that is, the element of selfishness, of benevolence, and of frailty or moral weakness. All persons may be regarded as possessing these three elements in their character in different proportions. Taking human nature as it is, and not as we should like to see it, it is evident that to each individual personal interest and self are para-

mount, and the interest keeps diminishing the further it is removed from self. We may try to disguise the fact as much as we like, but self-interest remains, after all, the ruling passion with mankind, and is the grand mainspring of all human action.

The practical recognition of the full significance of selfishness as a human factor to be reckoned with, does not, however, by any means imply that benevolence is not also a factor of some importance in human affairs. Like selfishness, benevolence is a perfectly natural sentiment. We all would like to see everybody happy and prosperous, and have more or less of a tendency to contribute toward such a consummation. The strength of this feeling varies, of course, enormously in different individuals, just as individuals differ greatly in the intensity of all other traits and tendencies of character. We must freely admit that the benevolent tendencies of human nature play a rôle of some importance in the economic life of production and distribution. But it is decidedly manifest that although the selfish tendency has practically no bounds in the human breast, the benevolent tendency meets, from moment to moment, limitations to its play of the most practical and positive kinds. These limitations to the activity of the benevolent element are, in the first place, the selfish tendency itself, and in the second place, the comparative inability of most individuals to gratify their benevolent intentions. Most persons are occasionally willing to devote some of their possessions or energies to others, but comparatively few have any tendency to do this habitually; and the still smaller number of persons who regularly

set aside a portion of their resources for the welfare of others are nearly always so amply provided already with what they need, that the sacrifice is not at all a drain on their energies or enjoyment. The strongest obstacle to the benevolent tendency is the utter lack of the means to exercise it; people do not work for others, not only because they naturally do not like to, but also because they cannot afford it; and people generally do not give to others because they have not enough for themselves. Human nature being thus primarily selfish, no system of society, which shall be based on universal benevolence, is conceivable unless human nature itself changes.

The factor of human frailty also plays a rôle of great importance in economic life. We are by no means morally perfect. Hardly anybody loves work for its own sake, while nearly every one has a keen sense of the good things in this world. Wealth being the universal object of desire, and its acquisition by toil requiring efforts of a painful character, it is not surprising that men often forget the nice distinctions of right and wrong, and mine and thine, in their pursuit of the objects of desire. Hence the universal caution which men employ against each other for the protection of their personal interests; and the safeguards placed by law and government, not only to preserve individuals from the possible depredations of their neighbors, but also to protect individuals from the temptation to do wrong. There is a grim and sardonic significance in the daily prayer, "Lead us not into temptation." Although the desire to do right is paramount with humanity, yet for many persons the

lapse from rectitude depends only on the character of the opportunity and the magnitude of the price. The fact may not sound pleasant, but men everywhere depend more upon their own watchful eye for obtaining that which is lawfully due to them, than they do on the integrity of those with whom they deal. The rule seems to be, the greater the opportunity to acquire wrongfully or to shirk obligation, the more frequently such delinquencies occur. Such being the case, and human nature being as it is, any system of society, under which human weakness is exposed to still more temptations than at present, must necessarily result in a still larger quantity of individual wrong-doing, with the consequent individual suffering.

It must also be remembered that there is a natural antagonism of interests between different individuals, as well as between an individual on the one hand and a community on the other. The economic life of each individual consists of a vast number of separate bargains with other individuals. Obviously, in any one transaction between two men, the more one gets by an exchange or partnership, or any business whatsoever, the less the other gets; and thus, however men may combine for the furtherance of common aims, there are necessarily terms in their alliance, and even here some antagonism of interests, however small, naturally exists. The oft-repeated sentiment, that the interest and welfare of the community are also the interest of the individual, is doubtless true, but it is only true in a very general and indefinite sense. Doubtless, it is in my own interest to be a

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member of a rich and prosperous community, whose overflowing coffers produce public benefits in which I also may share, and whose prosperous private citizens are extremely desirable persons for me to deal with. But it does not at all follow that in my dealings with the community, or in any of my private transactions which may indirectly affect the community, the community's interest and my interest fall together. If I deal directly with the community in selling to it either my labor or any other commodity, we have at once the conflict of bargaining and the antagonism of interests; for here it is obviously my interest to give as little and to get as much as possible, and only the considerations of morality and expediency will deter me from making full use of every advantage which may be in my favor. The total collective interest is one thing, but the individual's share in that collective interest is another. The general rule seems to be, the more an individual can get, or the less he need give, the more he will try to get, and the less he will try to give; and in so doing he is only following the ruling passion of human nature. This being true, it is idle to speak of any general harmony of interests, even for the smallest group of persons, except in an extremely vague and general way. Wherever there is an exchange, or a bargain, or a co-operation, or any economic transaction whatever, natural antagonisms of interest, be they ever so mild, necessarily exist. How far the various conflicts of personal interest will be modified by feelings of benevolence or altruism is a matter of individual character, and cannot be

definitely determined or predicted from any general principle.

III.—*The Element of Uncertainty.*

It has been said that every individual engaged in the affairs of life is always consciously or unconsciously making predictions. Every productive enterprise naturally involves calculation, which is a kind of prophecy that it shall turn out successful, or that the value of its result will, ultimately at least, equal the outlay for its performance. In some transactions such predictions can be made with a fair degree of accuracy, but in the vast majority of economic transactions there is a powerful element of uncertainty which plays the saddest havoc, not only with human undertakings, but also with economic theories. Man is far from being perfect in intellect, and is very liable to error from a thousand causes. We know only the present, and the future is a matter of speculation. The cost and outlay for all human undertakings are present facts which we know, but the value of the future result is entirely problematical. We may make excellent calculations, but none can be absolutely accurate; and the further remote the event, the more uncertain as a rule is the calculation. This is true of all human estimates, whether made by an individual or by a community, and the mistakes made by persons are more than paralleled by the mistakes made by communities.

The factors which make up the element of uncertainty are two-fold; actual mistakes in calculation,

and unforeseen contingencies. It is impossible to be absolutely sure of every point, and to be prepared for every chance, and mistakes and accidents are very expensive. Just as a small miscalculation of weight and balance in a bridge may precipitate it to the bottom, so a slight miscalculation in a productive enterprise may involve the waste of millions; and such losses may occur not only from actual blunders, but also from the capricious changes of taste, and from mere accidents or calamities of nature. All productive enterprise or investment necessarily involves speculation, and speculation means more or less uncertainty. Whether capital and labor are directed by individuals or by governments, the element of uncertainty will always remain; and expensive mistakes will occur just as at present, because we are always estimating for the future, with all its contingencies, and because we are working with an extremely fallible instrument—the human understanding.

IV.—*The "Right to Live" and the "Right to Work."*

Few expressions are oftener on the lips of socialists than the phrases, "Every one has a right to live," and "Every one has a right to work"; yet very few persons attempt to examine what meaning, if any, these phrases have. Undoubtedly, if I am making my own living and am obeying the laws, I have a right to live; that is, no one has any right to shoot, or poison, or stab me, or put a violent end to my life. In fact, the very circumstance that I am sustaining

life with what I have or have earned constitutes my right to live. Leaving out of consideration such cases as the right of children to be supported by parents, of indigent parents by children, of pensioned veterans by the Government, and similar examples, the expression, "The right to live," seems to mean nothing more than the right to the protection of one's own life. Can "the right to live" legitimately mean anything more? It is difficult to see how, without falling into startling and dangerous conclusions. If I am unable for any reason to make a living, what becomes of my so-called "right to live"? Obviously, I must perish if some one does not give me food and clothing and shelter. Now, on what ground of reason can I claim this from another? If I have a "*right* to live," my right is a mere meaningless word unless I obtain the wherewithal to live; and if I have it not, and cannot support myself, to say that another is obliged to furnish the wherewithal for me is equivalent to saying that I have a right that some one else support me. A conclusion so monstrous and dangerous cannot be entertained for a moment. Sentimental people may think such argumentation is heartless and cruel, and fit only for an extreme barbaric form of individualism; but those who are afraid to face the two alternatives squarely can have no clear idea of what the words "right" and "right to live" really mean.

Far be it from me to assert that we must remorselessly allow all to perish who are unable to maintain themselves; our common sentiment of humanity revolts at such an extreme standpoint. We all believe that there is a moral duty on the part of mankind to

make an attempt to aid the weak, and the suffering, and the indigent ; but we must remember that the resources of humanity are strictly limited ; there is no endless cornucopia from which to distribute to all in boundless profusion, and those who do not produce for themselves have no moral right to claim support from those who do. To a man barely making a living for himself, and called upon to help another on the ground that everyone has "a right to live," the proposition would appear not only absurd but manifestly impracticable. It is so with an individual in relation to the whole community. If a man is unable to do anything for which the community is willing to give him a remuneration, on what ground can he be alleged to have a right that the community should work for him and support him ?

A similar result is obtained if we examine that other high-sounding phrase, "The right to work." Everyone has, of course, a right to sell his labor if he can find a customer for it; he is, moreover, entitled to the full protection of the law in pursuing his vocation. Can "the right to work" be construed to mean more than this? Evidently not. No matter what may be the system of production and distribution, labor is only employed because there is an economic demand for it, and a demand implies that some one is able and willing to pay for it. The "right to work" thus means no more than this: a man has a right to work if he can find employment—that is, if some one is able and willing to employ him, and at mutually agreeable terms. It makes no difference whether the employer be a private

individual or a collective community. If there is no demand for the labor of an individual either by a private employer or by an employing community, where does the so-called "right to labor" come in? All that the labor-employing agency can ever possibly do is to employ such and so much labor as it has a demand for, and a demand for the labor necessarily implies that it has value to the employing agency. If for any reason whatever there does not happen to be a demand for the labor of an individual, that simply means that the labor has no value at that time to the employer, whether the employer be a private individual or a co-operative community. The value of labor is necessarily what the employer pays for it, and no one can venture to assert that it can ever be the business of the community to pay for anything which at any time has no value to it.

This chain of reasoning—and it is wholly unavoidable—thus leads again to a blind alley. Labor is employed when the community has a demand for it; if the community has no demand for it, what becomes at that time of the individual's so-called "right to work"? The conclusion may be painful, but it is true. Just as at present an individual cannot find work because there does not happen to be any visible demand for it corresponding to his willingness to labor, or to his own estimate of the value of his labor, so this may happen in the same way if the individual is to be a laborer of the collective labor-employing community. If such an unfortunate person has no other means of support

and is to be sustained, he is, of course, a consumer without being a producer, and is necessarily a burden on the community, no matter under what circumstances we live.

CHAPTER II

THE CHARACTER OF ECONOMIC FACTS

THE science of economics has for its primary object the discovery and statement of the natural laws under which production and distribution are carried on. These economic laws may be the simplest facts or the most self-evident truisms; but the simplicity of an economic law does not by any means detract from its importance. The details of production and distribution vary, of course, under different circumstances of time, locality, industry, social character, and development, but the underlying economic principles are essentially of the same character as the laws of chemistry and physics, and must be regarded as immutable natural laws. We might compare as an example the economic law of diminishing returns with the simple fact of nature that if I put my finger into the fire it will be burned. It is perfectly true that we can prevent the law of diminishing returns from operating by simply not making the additional applications of labor and capital to the land which has already reached its maximum average of productiveness, just as we can prevent our finger from being burned by simply not putting it into the fire; but fire will burn our finger as soon as we give it a chance

to, and the law of diminishing returns will operate as soon as the existing circumstances of an industry permit it. And just as surely as two and two make four, ~~when~~ a piece of land is at the point of diminishing returns, and from any reason a larger product is required from it, so surely will the additional outlay yield a smaller return than the previous outlays, and so surely will the total return be proportionately smaller to the total outlay.

Political economy contains a certain number of positive and unassailable economic laws whose character, like the laws of nature, entirely removes them from the sphere of legislation. No power of government can abolish the law of diminishing returns, or decree that a perpetually-increasing population should be able to comfortably subsist on a limited area of land. A scientific economic principle is, therefore, a law of nature, and necessarily holds good in any and every system under which we may live. We will now examine and state these essential economic facts and principles.

CHAPTER III

WEALTH AND PRODUCTION

IN the economic world we perceive the phenomenon of a certain amount of wealth in various forms, by far the greater portion of which is in the absolute ownership of private persons whose individual shares, for many reasons, differ enormously in amount. Measured by some common denominator of value like money, this wealth represents certain averages in proportion to population. Alongside of this material wealth we also contemplate the phenomenon of the labor-force of a community; that is to say, the great mass of laborers of all kinds who are willing and able, under acceptable conditions, to lend their efforts towards production to such persons as are willing and able to pay for their services.

With this wealth and labor, both of which are instruments of production, a certain quantity of new wealth is annually produced. Part of this newly-produced wealth is consumed for the personal use of those into whose possession it comes; part is used to replenish the partially-consumed wealth or capital used in production; and part, if there is a surplus, is perhaps saved for future use. The wealth, unless it is uselessly destroyed, is thus constantly being con-

sumed, is reproducing itself; and, if the circumstances are favorable, it may even be growing.

Now, no matter what the system of society may be, three things will always be necessary for production: land, labor, and capital. We must have land; out of it ultimately come all the materials for use and production, and, moreover, we must have land to dwell on. We must have capital, which is wealth used for production, and which exists in the forms of machinery, food, raw material, and the like. Wealth merely used for personal consumption cannot be regarded as capital; it is only capital when used as an aid to production. We must have labor to work up the land and capital into such forms as are desired for use. Land as an instrument of production may be very properly regarded as capital, but for reasons of convenience in economic discussion, political economy prefers to consider it separately.

The amounts of land, labor, and capital required for production naturally vary according to the character of the particular commodity to be produced; thus, in order to produce a certain quantity of food for an estimated future demand, a certain amount of land, labor, and capital are necessary, but improvements in methods may enable the producing agency (whether the State or private enterprise) to require for the production of this certain amount of food, less of any or less of all these three elements of production. Less land may be required, as when richer soil becomes available; less capital may be required, as when a cheaper fertilizer is employed; or less labor, when more efficient machinery is intro-

duced. Moreover, any improvement in production may affect the quantity of any or all of the three producing factors.

On the other hand, under any *given* state of production, an *increased* supply of any commodity can only be procured by the employment of an increased quantity of land, or labor, or capital, or all three. The average *cost* of producing each single commodity under this increased supply—a single pair of shoes or a single bushel of wheat is meant—may be reduced, as is generally the case in manufactured articles, or the average cost may be increased, as is the case in all production when the economic principle of diminishing returns has been reached, especially in agriculture.

We summarize once more these simple facts: The producing agencies, whether the State or private individuals, have at their disposal the existing wealth or resources of a country and the available labor-force. That portion of the resources used in producing more wealth is capital. For the production of a given definite amount of commodities a certain amount of land, labor, and capital is necessary. The relative amount of each element of production required for producing this definite amount will vary according to the condition of development of each particular branch of industry. The production of an increased amount, under this given condition of industrial development, can only be effected by the application of an increased quantity of land, or labor, or capital, or all three. This increased application—if it can be made, or in other words, *if we have* the land, or labor,

or capital at our disposal—may result in reducing the average cost of production of each article ; or it may, if the principle of diminishing returns has begun to operate, result in increasing the average cost. These facts will hold, of course, no matter who directs the production, whether the State or private individuals.

CHAPTER IV

VALUE AND PRICE, DEMAND AND SUPPLY

PERHAPS the most fundamental and most important point in political economy is the correct conception of "Value," with all its various applications. If this is misconceived, then all economic views become false and distorted at the outset. Much clever writing on economic subjects is made absolutely worthless from the faultiness of its primary assumptions, and the phenomenon of value is one on which people entertain some of the haziest and most erroneous opinions. Now, a proper economic definition must be one which will hold good *under all possible circumstances*. A definition which fails in this or that special case is really no definition at all, for it is extremely easy to manufacture rules with exceptions. There are in our economic life certain immutable economic principles just as there are in chemistry certain laws of chemical combination. Now, it is obviously the first business of political economy, as a science, to define and fix its terms and its laws. 88

What do we mean when we say that a thing has value, or that it is valuable? And if we know for a fact that a thing *has* value, then *why* has it value? All kinds of definitions have been attempted for the

term value, such as "utility," "capability of satisfying a want," "difficulty of replacement," and others ; but most of the ordinary definitions are wholly inadequate, for reasons which will appear presently.

The value of any article may be viewed from the point of view of the possessor who owns it, and from the point of view of the non-possessor who does not own it. Obviously, value is, therefore, some feeling or sentiment on the part of anyone, possessor or non-possessor, towards a certain commodity.

If I possess an object, for which anyone is willing to give me something in exchange, it is manifest that that object has some value ; and if no one is willing to give me anything in exchange for it, that object manifestly has no value. Value is thus *exchange-power*, and to this definition there can be no exception. It makes no difference who the possessor or who the non-possessor may be, the value of the article is its power of being exchanged for some other article. It may be objected that the possessor of the article may be unwilling to part with it except at utterly prohibitive terms of exchange, or possibly not at all, and thus the article really never comes into the open market. Such cases are common enough. But the sentiment of the individual possessor is his own business ; the community can have no power over my feelings ; on the other hand, the non-possessors have also their own feelings, which is their concern. Each person is responsible to himself alone for his own sentiments in regard to any commodity, and no other party has a right to complain if such sentiments do not correspond to his own wishes.

If I own a commodity (whether it be land, or goods, or labor), and desire to exchange it for something else, that commodity is worth just what I can get for it, and no more. It does not matter a particle what virtues the commodity may have; be it ever so useful, or beautiful, or scarce, it is worth only what I can get for it. If I am unable to get for it what I want, and for that reason refuse to part with it, that is entirely my own affair. The intensity of my desire to get some other article in exchange is not, and cannot, be the measure of value of my own property. On the other hand, my own small estimate of an article in my possession is not necessarily a criterion of its value; the desire of others for it, and their ability to pay for it, will determine its value.

If I part with a hat for a coat, it necessarily follows that I value at that moment the coat a little more than the hat, and that the previous owner of the coat values the hat more than he values the coat; if this were not mutually so, no exchange would take place, for no one gives what he values *more* for that which he values *less*. This principle applies inexorably to all exchanges whatsoever, and under all circumstances, and it makes no difference whether I offer my commodity in the largest and most perfect market in which all possible purchasers are canvassed, or whether I offer it in a small and limited market. It might be very disagreeable to me to discover that I cannot sell my labor for more than three dollars a week; but if no one in the community cared to give me more, I would simply have the choice of keeping my labor or of taking three dollars for it. Moreover, this is true

also if the collective community is my employer; the community as a holder must necessarily estimate value in the same way, and the community's estimate of the value of any commodity, whether goods or labor, will be one thing, and the estimate of the possessor and would-be exchanger of the commodity will be another thing. It may happen that no terms of exchange can be agreed upon, but this does not influence the general principle. The value of a commodity is its exchange-power, and this means no more than the quantity of other articles which the possessor can obtain for it from other parties, whether the other parties are private individuals or the collective community.

Furthermore, as value is a feeling on the part of individuals, there is no human agency which can, by its simple declaration, influence this feeling. No government can decree that those who have an effective demand for a commodity shall offer to purchase that commodity at this or that rate. The government is no more able to compel me to regard a particular kind of hat as worth three dollars or one day's labor or anything else, than it can force me to believe in anything to which my feelings and intentions do not agree. No public decree can fix a value because value is the individual's sentiment, his own estimate of what he is willing and ready to give in exchange for a commodity; and no public decree can influence my feelings of willingness or unwillingness to exchange.¹

Value is essentially a present phenomenon of social

¹ The delusion of bi-metallism, national or international, is entirely due to ignorance of this fact.

character. Commodities have value only because people are willing and able to give something for them. Moreover, in speaking of the value of any article, we necessarily mean what can be procured for it *now*; future values are entirely a matter of speculation, and if such speculation is accurate and inspires confidence, a commodity whose great value, in a reasonably near future, looms up clearly in the present, will also have present value. If persons are sure that an implement, which no one wishes to use now, will be worth, say, a thousand dollars next year, they will very probably be willing to give something for it now. Anything which is certain to have future value, in a not too remote period (as far as our fallible intellect enables us to perceive), is also almost certain to have some present value.

Value is thus a ratio between two commodities expressing their exchange-power with regard to each other; in other words, an expression showing *how much* of one commodity will exchange for so much of another. Of course, we can only know the exact value of anything by trying to sell it in the open market—whether the owner will part with it at the market rate offered is entirely his own business, but his possible refusal does not give the commodity any greater value at present. He may desire to wait until the value of the commodity goes up, but then he is merely taking his chances. What the article will be worth in the future, whether the same, or more or less, is entirely an affair of speculation.

Values naturally fluctuate; this is inevitable, because human feelings fluctuate with regard to a

commodity. The popular desire for any particular thing may have been very intense yesterday, and the people may have been willing to give twenty-five dollars for it rather than to have gone without it ; and to-day they may be quite indifferent towards it, and the producer or the possessor of the article in question may have the choice of keeping it or letting it go for five dollars ; to-morrow the popular demand for the article may be as intense as ever, or perhaps it may die out entirely. And this phenomenon of fluctuation is inevitable, whether the demanders of the commodity directly order it in advance at an agreed rate, or whether the producers manufacture the commodity without a previous agreement, and then take their chances of disposing of it. Furthermore, the operations of economic life being based on fallible human calculations, no human agency can possibly predict with certainty what the value of any commodity, whether goods or labor, will be.

There is thus a constant fluctuation or rise and fall of value. As value is a comparison between two commodities, a rise in value of one thing means a fall in value of something else, and a fall in value of one thing means a rise in value of something else. Thus, if bread was worth yesterday five cents a loaf in the market, and to-day it is worth six cents a loaf in the market, that means simply that bread has gone up in value as regards the five cents, or that the five cents have gone down in value as regards the loaf of bread, although neither of the two commodities has lost any of its attributes. So if we compare any other two com-

modities, as hats and shoes, labor and clothing, labor and gold.

Can there be a general rise or a general fall in value of all exchangeable commodities? Remembering that labor is also a commodity which is bought and sold, obviously all commodities cannot simultaneously go up or down in value any more than all the runners in a race can outstrip one another or all fall behind one another. But it is perfectly possible that all commodities can go up or go down in value compared with one single commodity,¹ be that one commodity gold, or wool, or labor, or anything else. There is, therefore, nothing startling in the fact that all commodities may go up or go down in value when compared with the commodity labor.

What is the measure of value? As value is a comparison of exchange-power between two objects, *any* commodity may be used as a measure of value for all others. We might measure the value of a hat by so much gold, or iron, or cloth, or meat, or anything else. Historians can give us much entertaining information about the different commodities used as general measures of value at different times and in different places, such as furs, tobacco, iron, copper, grain, dried fish, and various others. But as soon as it has become practicable, society has used the precious metals as a common measure, and for these reasons: they are valuable as commodities, are portable, divisible and homogeneous, are easily recognised, and generally represent considerable value in convenient bulk;

¹ Or a group of commodities considered in a lump as one.

these are all necessary attributes of a common measure of value, and evidently do not all inhere in any other commodity. An attempt to substitute anything else for gold or silver for the measure of value would obviously be highly inconvenient, difficult, and awkward. It is not at all necessary for governments to stamp certain weights of gold and silver, and call them dollars or sovereigns, to get these things used as money or circulating measures of value. The government does not and cannot possibly give them value; in coining these metals the government has only certified to the weight of each piece and its fineness; all it really does is to save the individual the trouble of testing the weight and fineness for himself, nothing more.¹ Measured in money, the value of a commodity is simply its *price*, and a price is thus the sentiment which the possessor of exchangeable gold on the one hand, and a possessor of the other exchangeable article on the other, have for the article measuring the same in money if they come to an agreement; whether an exchange will be effected or not depends entirely on the mutual willingness of the two would-be exchangers.

The two exchangers in economic matters are the demander and the supplier. But the demander has a

¹ The fact that a silver five-shilling piece or a silver dollar, neither of which contains five-shillings' worth or a dollar's worth of silver, passes as though of full weight, is, of course, no argument that the act of exclusive coinage by the government causes these pieces to have this value. They are stamped only in limited quantities, and, as a matter of fact, are merely promissory notes of solvent governments stamped on metal; their value, like that of any other promissory note, or bond, or token, depends wholly upon the credit of the party issuing them.

supply of something to give in exchange, and the supplier has a demand for something with which he desires to be paid. Hence there is no economic difference between demander and supplier: the demander is a demander because he "demands" another man's goods, in exchange for which he has other goods to "supply" him with; while the supplier "supplies" the goods because he himself has a "demand" for some goods belonging to the demander. Each is a "demander" of the other's goods (whether money or land or anything else), and each is a "supplier" of what the other has not. Whether they will effect an exchange or not will depend on the strength or weakness of each other's demand. And the strength or weakness of demand may depend on any one of a hundred causes which may influence the individual at a given moment.

The question may now be asked, *On what does the value of any commodity depend*, or (what comes to the same thing) *why* has a thing value? This question has really been answered in the preceding discussion. Value depends entirely on demand and supply. That is to say, the value of any commodity depends on the effective demand¹ on the part of those who desire the commodity and have the wherewithal to pay for it, and on the supply of those who have the article and are willing to part with it. The general principle must be that value is determined by demand

¹ Of course, a mere desire not backed up with an acceptable commodity is not an economic demand at all; we are all full of such desires, and most of us have not the slightest financial backing with which to gratify them.

and supply, and to this principle there can be no exception.

It is frequently argued that value depends on "utility," or "labor," or "difficulty of replacement"; but it is impossible to maintain any of these supposed determining factors without flying in the face of the most obvious facts of human nature and human experience. Of course, it is easy to say that this or that article will fetch five dollars in the open market "because it is useful," or "because much labor has been spent on it," or "because it is more or less difficult to replace"; but none of these virtues will make the article of any value *if there is no effective demand* for it. The demander of any article gives for it what he is willing to give: this is the strength of his demand; he buys a commodity because he wants it, and is willing and able to pay for it what he values it at. No matter how much labor has been spent on the article, no matter how useful it is, no matter how rare and beautiful it may be, the demander will pay only what he is willing to pay, and the market value of the commodity will depend entirely on demand and supply. Utility cannot be made a measure of value; one example will suffice: a loaf of bread is naturally more useful than a diamond,¹ yet bread is far less valuable than diamonds. Some of the most useless commodities, such as relics, precious stones, and many other articles are extremely valuable, while some of the most useful, as iron, have little value compared with these. We must remember that we are never

¹ Of course, regard to time and place must be had; a shipwrecked crew will give up all its diamonds for bread.

dealing with the total quantity of any commodity at the same time, we only deal with limited portions of the commodity. If the world were given a necessary alternative of parting with all its iron or all its gold, it would unhesitatingly prefer to give up all its gold. But the world only deals in individual economic transactions with portions of its gold and iron, and a given limited weight of iron is obviously less valuable than the same weight of the less useful metal gold.

A similar train of reasoning will also show that the value of a commodity cannot be made to depend on the labor that has been instrumental in producing it. Labor is an extremely heterogeneous commodity; it varies endlessly in its kinds and difficulties. The difficulties, moreover, of the same kind of labor vary enormously to different persons and under different circumstances. Two farmers may raise each a hundred bushels of wheat of the same quality from two equally large areas of soil; they may have even used the same quantity for fertilizer and other outlays of expenditure, but the difference in soil may have compelled one farmer to use much more labor on his patch of land than the other to obtain his hundred bushels. Would a bushel of wheat from his farm be worth more in the market than a bushel of wheat from the land which had required less labor to cultivate? Two hatters may make two hats exactly similar in all respects; because one hatter has, forsooth, been obliged for any reason to use more labor than the other, does his hat become more valuable than the other hat? The fallacy of making value depend on labor becomes more glaring when we take different

commodities. We may reasonably suppose that it requires much more labor for builders to build an ordinary house than for a painter to paint a picture, and the labor may be longer and harder to the builder than to the painter. The house, moreover, is infinitely more useful than the picture ; yet, does it at all follow that the house will be more valuable in the open market than the picture ? Such examples might be multiplied by thousands.

Labor is an *incident* in the production of a commodity ; but the value of a commodity when it comes to be exchanged in the open market of demand-and-supply is something entirely different. The *labor* is a matter of past history in the production of the article, the *value of the commodity* is its present exchange-power, and the two are entirely independent. It is the same with "difficulty of replacement" and "scarcity." Because an article is difficult to replace, does that necessarily make it more valuable than another article which is much easier to replace ? An article may be ever so scarce, but if there is no demand for it in the open market, then that article has no value.

The assertion that value is "capability of satisfying a want" is also inadmissible, unless we complete the statement by adding "on the part of him who has the wherewithal to pay for the article." I may possess an article which I desire to exchange for something else ; it may be bread, which is decidedly "capable of supplying a want ;" yet, if those who would like to obtain it to satisfy their appetite have nothing acceptable to give me in exchange, on

what ground can I say that my bread is valuable? It may have cost me much time and money and labor to make the bread; and yet, if no one has anything to give me for it I can only have the choice of keeping it, or of giving it away for nothing; and if nothing is all I am able to get for my bread, then that bread has no value, no matter how desperately necessary it may be to the hungry paupers upon whom I may in charity bestow it.

The more we attempt to refine on the question "On what does value depend?" the more we are forced to the ultimate admission that value depends only on demand-and-supply. Demand-and-supply is the final arbiter of value, and from the decision of this judge there is no economic appeal to any higher economic court.

The above discussion seems more likely a simple statement of truisms than like a chain of economic reasoning; in fact, it may be not unreasonably suspected that the fundamental principles of economic science are all more or less truisms; but that does not in the slightest degree detract from their importance. It is the business of economic science to define and specify the immutable facts of economic life, and it makes absolutely no difference if these facts are simple and self-evident.

To summarize the results of this discussion on value:—Value is the fluctuating exchange-power of a commodity, and is measured by the quantity of some other commodity which can be obtained for it; it depends on demand-and-supply; and these principles will hold good whether the exchanging parties are

two individuals or two communities, or a community on the one hand and an individual on the other.¹

A few remarks on the relation of value to socialism may not be out of place here. The conception of value is probably the most embarrassing economic fact with which theoretic socialism has to deal, and the reason is simply because the idea of value is grounded in human nature itself. The exchanges effected under our present individualistic system are doubtless often hard and disagreeable to one of the two exchanging parties; but even under the most perfect system of socialism, the general idea of value must prevail in about the same way as at present. The only difference would be that an exchange, instead of taking place as now between individual and individual, would take place under socialism between the community on the one hand and the individual on the other. The simple fact is that the individual would give his labor to the community (*if the community wanted it*) and the community would give him something in return for it from its stock; and it would give him only so much as it would regard his labor worth. The community would have its market values just as at present, and the individual (who would thus desire to exchange his labor for other commodities) would be in exactly the same position as at present, demand-and-supply regulating the value of his labor. If society has no demand for a particular kind of labor, that labor will have no value just as at present. Even a socialistic community could only, and would only, pay

¹ For Karl Marx's theory of Surplus Value, see Part III., Chapters II. and III.

from its common stock of distributable commodities to those called upon to contribute to that stock, and who, therefore, actually do contribute to the common stock of distributable commodities. It matters very little what the available measure of value may be; when two commodities are exchanged, one is the measure of value of the other. No community of sane human beings could be brought to consider all labor of equal value to itself; and an individual laborer, in giving his labor (or the products of his labor) to a community, would have to make his terms of exchange with it just as he does at present with a private individual, and the terms of exchange might be as unpleasant and as unsatisfactory to him as they now often are. And if society had no use for his labor at all, how could he claim anything from the community except as a favor or charity? Demand-and-supply must necessarily be the regulator of all value in a socialistic community, as in our present system of society.¹

¹ The subject of a reward for labor in a socialistic community is discussed in Chapter V. of Part III.

CHAPTER V

RENT, INTEREST, AND WAGES

ALTHOUGH rent, interest, and wages are always treated separately in economic works, we have conveniently grouped them together, as they are all really determined by the same general principle of demand-and-supply. Rent is payment for the use of land, interest is payment for the use of money or capital, and wages are payment for the use of labor. The value of land, capital, and labor is naturally determined by the same general determiner of all values, demand-and-supply.

Under the existing system and development of society, the three payments of rent, interest, and wages usually go to three different individuals (or groups of individuals), who furnish the three factors of production—land, capital, and labor; these are the landlord, the capitalist, and the laborer. It is important to take into account the business manager or organizer and director of industry; it is he who determines in what way the land, labor, and capital shall be utilized in production. Economically considered, the business manager is also a laborer (albeit of the highest order), and his services are remunerated by what economists term the wages of superintendence.

Now, it does not at all follow that land, capital, labor, and work of superintendence should necessarily be furnished by four different individuals. A man may combine the capacities of one, or two, or more persons in himself alone; he may be his own landlord, capitalist, and manager; or he may be his own capitalist and manager; or he may be his own landlord and capitalist; or he may be his own landlord, capitalist, laborer, and manager all in one. Such combinations of different capacities in the same personality are frequent enough, but in economic discussion it is not only convenient, but necessary, for a clear conception of the process of production and distribution, to keep the functions and payments of the landlord, capitalist, laborer, and manager separated in thought. In all production there is necessarily an element of uncertainty or risk, however slight it may be, which must fall on somebody's shoulders; and this fact makes the payment for at least one of the factors of production contingent.¹ Now we may always consider the three (or rather four) elements of production furnished by different persons. If a person furnishes more than one factor of production, as when he is his own capitalist and manager, he necessarily receives two remunerations (if he really is to receive any at all): interest on his capital and wages of superintendence. The owners of land and capital are able to obtain from the community a compensation in rent and interest for the use of these two instruments of production, because they are necessary for production—that is, because there is

¹ See Part I., Chapter VI.

a demand for them. In an ideally and perfectly managed socialistic community which would collectively own all the instruments of production, the large sums now paid by the community to landlords and capitalists would be saved to the community, and these sums, instead of being distributed to form part of the wealth of only the present owners of land and capital, would form part of the wealth of the whole community.¹ As I have said, *in an ideally and perfectly managed socialistic community*. There is nothing alarming or dangerous in admitting the supposed saving of rent and interest.² How much—measured in any one commodity like gold—would be the actual saving? For rent this can be calculated by adding up the market rental value of all the land; this would give us, for the United States, something like \$2,000,000,000 per annum; for England, about \$1,000,000,000; for France, about \$1,100,000,000; for the other instrument of production, capital, some similar calculation could approximately be made. Moreover, in making such calculations of the possible average of annual saving, we must necessarily premise that the land and the capital *shall remain intact* as much as its economical use permits. The land must remain at least as good as it possibly could be under the circumstances, and the total amount of capital must continually retain as much of its productive power to the community as

¹ In an ideal system this would also be true if the community did not produce on its own account, but merely lent land and capital for rent and interest to independent individuals.

² The question of how the community is to acquire the land and capital is discussed in Part III., Chapter II.

the circumstances of its use and usefulness permit. The land and capital used must be constantly replaced by at least an equivalent value, or else the community has to suffer a loss in the diminution of the value to itself, and the instruments of production would thus produce less than before they were consumed without equivalent replacement. The production of wealth depends on the instruments of production and labor; the less of each, the less the total producible. Now, in order to assume safety for the instruments of production over a period of years, we are compelled to estimate from experience what the average interest of capital or rent of land is for a longer succession of years, so that we may know how much annual interest the total land and capital would be worth to the community, if it took little or no risk in regard to its diminution. This varies in different countries, and under different circumstances; land in England yields an average of about four per cent pretty safely for long periods of years; in the United States about six per cent. Capital invested in business enterprises in which the minimum of risk is run probably yields about seven per cent. Whenever an attempt is made by the owner of capital to obtain more, experience shows that he simply risks more, and in the long run the average interest will remain about the same for the total amount of capital invested. When a private owner of capital destroys the same by allowing it to be misdirected, so that it no longer is replaced, the interest-paying community no longer has at its use this instrument of production. It is the same if a community owns

the capital for itself. Obviously, it would be no gain at all to the community if it assumed possession of capital, for the use of which it formerly paid a million dollars annually, if it destroyed the same by misdirection; rather have the capital remain intact and pay the entire interest on it, than own it absolutely for a short time only, and then lose its use altogether.

The community, therefore, as the collective owner of all the instruments of production, would only save its present expenditure in rent and interest, if it made *at least as good a use of the land and capital as the present private owners do*. Whether the collective community would make as good, or better, or worse use of the same, is not at this moment the question, but it is decidedly an open question.

The actual amount of the eventual saving is a matter of approximate calculation. Assuming that private capitalists and landlords now receive from the community several hundred million dollars for the use of their land and capital, the community would save this sum for itself if it owned the land and capital, and managed these instruments of production as well as they are now managed; it would gain more if these instruments of production were more productively managed by the collective community, and less if not so well managed; possibly there might even be a dead loss of many millions through the said assumption of the ownership if inefficient state management were to result in greatly diminished total production. At all events the amount of possible gain or even eventual dead loss to the community through ownership of the instruments of production is an open problem,

which obviously hinges on the question of how good a use the collective community can make of them.¹

Wages follow the same general principle of demand-and-supply, which determines the value of everything, no matter who the contracting parties are, whether two private individuals or an individual and a labor-employing community. As has been mentioned before,² the conception of value must necessarily exist in a socialistic community as at present, and different labor will, of course, have different value to the labor-employing community, no matter in what way or in what commodities the labor is paid for.³

This fact, recognized by every business man, is quite independent of any law professing to explain the amount of wages received. Here, as in every other question respecting an exchange, the only solution possible and unexceptionable is furnished by the formula of demand-and-supply. The wages of labor—that is, the price paid for its use, or, in other words, its value at a given time—depends upon demand-and-supply. This does not, of course, explain what the actual amount, mathematically calculated, will be; nor is such a solution possible, because the personal feeling determining the strength of the demand at various moments is not subject to a permanent stable measurement. Political economy can never find a tangible measur-

¹ Further discussion of the possible saving in a perfect socializing of the instruments of production is given in Part III., Chapter III.

² Chapter on Value, Part I., Chapter IV.; see also the next Chapter, page 44; Part III., Chapter V.

For a full discussion of the problem of wages in a socialistic community, see Chapter V. of Part III.

able equivalent for the fluctuating feeling known as demand. The utmost that can be formulated is the obvious fact that the wages of labor cannot sink below a bare subsistence enough to keep body and soul together ; nor can the wages of labor reach such an amount as would leave the undertaker no prospective return on his investment. Between these two limits the wages will fluctuate according to the formula of demand-and-supply. And here also the reciprocal strength of demand determining the momentary value or rate of wages may itself be determined by any one of many causes, such as : moral considerations, control of the supply of labor, extent of supply, inclination to labor, general condition of laborers, strength of capitalists, and the like.

CHAPTER VI

THE EXPENSES OF PRODUCTION AND THE ELEMENT OF RISK

IN the production of any commodity whatever there is a necessary outlay entirely irrespective of the destination or future value of the commodity produced.

Whether I produce for my own personal consumption or for a speculative investment leading to an eventual exchange, the expense of production must necessarily be paid out of *present* wealth. The factors of production being land, labor, capital, and superintendence, these have to be furnished in advance, or else no production is possible. Moreover, they have to be furnished whether they are paid for or not, by the director of the productive enterprise; the conductor of the productive enterprise may be able to secure the necessary factors of production (whether land or labor or capital) and agree to pay for them when the commodity shall have been disposed of at some future period; but in this case the furnishers of the means of production (land or labor or capital) are merely taking their share in the risks and contingencies. In such a case they may either agree to take a proportionate share or piece of

the product (whatever may be its eventual market value) or their share of the price ultimately obtained for it, if any.

Obviously, such an arrangement of general division, at agreed proportions of the risks in productive enterprise, rarely occurs, and is generally impracticable, especially in the payment of the labor necessary for production. As every productive enterprise always contains an element of risk, the great difficulty in profit-sharing between employer and employee lies in the fact that the employees are not in a position to bear risks. For this reason the undertaker of the productive enterprise agrees in advance to pay for all his necessary outlays out of the existing wealth at his disposal for that purpose, and assumes the responsibility of reimbursing himself out of the final future proceeds (if any) of his enterprise.

Now, in all productive enterprise in which the furnishers of land, labor, capital, and superintendence each take a necessary part, the remuneration of one of these must necessarily be contingent, although this fact is sometimes disguised. The manager may be working with borrowed capital, with rented land, and with hired labor. If the capital takes no risk, it must be replaced and interest must be paid on it; the rent of the land must be paid, and the labor must be paid for; here the wages of superintendence or profits will be contingent on the market value (whatever it may be) of the commodity produced. Another possible case is when the manager is paid a fixed salary, and the capitalists merely furnish the funds with which he operates; in this case the reward for the use of the

capital becomes contingent. Cases are very common in which the capitalist and the superintendent agree to share in the ultimate product; occasionally the landlord, the capitalist, and the manager, all three, agree to mutually share in the ultimate risk of the enterprise, and the reward of all three thus may become contingent. So even landlord, capitalist, manager, and laborers may agree to share in the ultimate product or its price when sold, in fixed proportions, the reward of each factor of production becoming contingent, but such cases are comparatively rare.

The most important person, from a business standpoint, is the manager or captain of industry, who directs in what way the productive resources shall be employed; it is his business to calculate what the demanding community would like to have, and what it is likely to pay for it; to find the instruments of production, land, and capital (if he owns them not himself), to hire the necessary labor, to direct the industry, and to find the market for the commodity produced.

Now, the cost of production can be calculated by the manager with more or less accuracy, because the cost of the different factors of production is a *present* fact, but the future value of the commodity produced is essentially a calculation in which accuracy is far more uncertain. Here the element of *time* enters, and between the time at which I begin to produce an article under given estimated cost of production, and the time at which I attempt to dispose of it, a thousand things may happen to make my outlay

either very profitable or absolutely worthless. Future value and future effective demand no one can absolutely predict, and the commodities which I have produced may not in the open market fetch even as much as the wages of the laborers whom I have paid for aiding in the production.

It might be objected that I may only produce for an order with guaranteed payment, and that in this case I am quite safe and have almost no risks. This is true, but the fact does not and cannot often happen. Of course, if no one ever collected the factors of production and attempted to produce, unless he had before him an effective preliminary demand with guaranteed payment, there would never be an element of risk in production; but it is manifestly impossible, as a general thing, to canvass for an absolute certainty the future effective demand in advance, to have the payment guaranteed, and then go ahead in productive enterprise. Undoubtedly some production is carried on in this safe way. I may withhold the land, labor, capital, and superintendence until a guaranteed order for the goods appears, and may even make the payment for these four factors of production only after the goods are delivered and paid for; but even in this case the party who has given the guaranteed order is really

- paying for the commodity out of present wealth. Either he or I must guarantee the payments for the use of the instruments of production and the labor. He will only pay for the goods if they are produced; and if they are destroyed, or are unsatisfactory, somebody must bear the risk of loss. When the goods are ordered and guaranteed for in advance,

and are then disposed of when made, the new possessor of them has them on his hands. Whether he desires them for his own use or consumption, or for selling again, the value thereof to him (whether for personal use or for disposal again) may be greater or less in his own estimation than his outlay for which they were made. In all cases the person who owns a commodity which he has bought, or for whose production he has paid, is the possessor of a something whose value now may be equal to, or greater than, or less than, the amount which has been laid out for its production.

These truisms are so self-evident that some apology is perhaps necessary to the patient reader for their statement.

Everybody can easily see that all costs of production must be out of present wealth. Simple intuition, as well as the every-day facts of industrial life, must make even the dullest perceive that expenses of production can only be paid for out of present wealth. Then why dilate at all on this simple fact? I answer, because there is at present a theory of economics generally professed and taught, to which simple intuition and observation give the bluntest denial, but a theory extremely captivating to certain minds who wish to see more than there is to see—a theory, moreover, which has been, and is continually, tending to throw the whole science of economics into confusion and contempt. The doctrine to which I refer is the peculiar residual-claimant theory of wages, first propounded, I believe, by the late General F. A. Walker,

and generally accepted with provoking complacency by the current political economy.

This doctrine alleges that the laborer is not paid out of capital (that is, out of present wealth) at all, but out of the product of his labor. Says General Walker, the chief authority for this doctrine:—

“Wages equal the product of industry *minus* the three parts (rent, interest, wages of management) already determined in their nature and amount. In this view the laboring class receive all they help to produce, subject to deduction on the three several accounts mentioned.¹ . . . Rent must come out before the question of wages is considered. . . . From the product of industry must be deducted a remuneration for the use of capital. . . . The third and last deduction to be made from the product of industry before the laborer becomes entitled thereto is what we have called profits, the remuneration of the *entrepreneur*. . . . These three shares being cut off the product of industry, the whole remaining body of wealth, daily or annually created, is the property of the laboring class, their wages, or the remuneration of their services.”

And to use General Walker's own expression, the laborer is “the residual claimant to the product of industry.”

According to this theory the laborers on the Brooklyn Bridge, who were at work some ten years in constructing that marvellous structure, were not paid out of the existing dollars and cents which the beneficent capitalistic government paid out in wages from week to week, but rather they were paid out of the product of their labor, which was, in truth, said Brooklyn Bridge. As the Brooklyn Bridge in its incomplete, as well as in its complete condition, is

¹ “Political Economy,” Part IV., Chapter V., p. 248 (ed. of 1887). “Political Economy,” Part IV., Chapter V., p. 249. “Political Economy,” Part IV., Chapter V., p. 250.

composed of a series of stone and iron works, scientifically placed so as to form the structure known as a bridge, one would naturally like to ask whether the laborers engaged on this great work were paid from week to week in pieces of stone and iron scientifically located (for such was the product of their labor), or whether they were really paid out of the existing accumulated cold cash of the government. Besides, as it took ten years to produce the finished product, the bridge, they could never have waited for the payment of their labor out of the product, unless they had had food, and clothing, and shelter enough to support themselves for ten years.

Let us analyze this so-called residual-claimant theory a little closer. The strangest example of it is probably General Walker's famous "web of cloth."¹ He describes how the web of cloth is produced, and how the various factors of production, the landlord, the agent of the water-company, the owner of the mill, the owner of the machinery and capital, then the numerous employees of various grades, come in for their share of it, each one cutting off a piece, and then what happens to be left, if any, goes to the captain of industry. By this means he illustrates how the product of industry is divided among the persons who have taken part in the production; but the absurdity of the whole web-of-cloth business becomes glaringly obvious when we reflect that the landlord wants his rent whether the web of cloth pays for it or not, and the laborers must have their wages whether the cloth realizes five cents or a

¹ "Political Economy," Part IV., Chapter I., pp. 187, 188.

thousand dollars to the manufacturer. Neither the landlord who has rented his land, nor the laborers who have lent their labor, are in partnership with the undertaker of the business in his web of cloth; they have to be paid for their land and their labor, cloth or no cloth, and moreover, have positively contracted for the actual amount of what they are to get. No economic transaction like the payments made from General Walker's web of cloth occurs anywhere in this business world outside of the imagination. The thing is wholly inconceivable and impossible except on the basis of a clear and definite business partnership between landlord, capitalist, laborer, and manager—a thing which we know does not occur. The laborer finishes his week's labor and is paid for it, sometimes months and years before the undertaker of the business sells the product; thousands of times he is paid his week's wages although the product itself cannot realize anything in the market, in many times when the product has actually been destroyed. Will it be affirmed that when a man sinks a hundred thousand dollars in a business manufacturing goods which are utterly worthless, because no one wants them, and thus fails in business (a circumstance that occurs daily),—will it be affirmed that in such a case the laborer is paid out of the product of his labor? In such cases, which happen by the thousand, the labor is paid, as it everywhere is paid, out of the capital, and the product is not worth a pinch of snuff. Will the disciples of the residual-claimant theory affirm that when it takes a year to build a railroad at a cost, say, of a million dollars,

that the laborers are paid from week to week in the product of their labor, which is not even yet completed, and the future value of which may be nothing? Does the laborer on a farm, the crop of which is expected in some months, receive his payment out of the future crop which will or will not exist, or does he receive it out of the present wealth of his employer? Does the shipwright, who is hammering away at a vessel, whose construction will last six months, receive his week's wages out of the ship (beams, pieces of the cabin, and the like), or does he receive his wages in the solid, tangible money given him by his employer? Does the hat-maker in the factory receive his payment out of the hats he makes for his employer, and which may never find a market, or in money? Do the laborers on a house receive their wages out of the bricks and mortar of the building which no one may want to live in (for aught the builder may know at present), and which may be finished in about six months, or do they receive their wages out of the existing wealth at the disposal of the builder? One feels inclined to ask in what way a surgeon, a dentist, a waiter, a shoe-black, a street-sweeper, a sailor, an opera-dancer, an actor, and a stenographer are paid out of the product of their labor? To ask these questions is equivalent to demonstrating the utter nonsense of the whole theory. How in the name of common-sense can any man be paid out of the product at which he is working, as in the case of long jobs like the Suez Canal, a railroad contract, and the like? How can any man be paid out of a product whose future value turns out to be nothing, as in the

case of innumerable business enterprises? How can any man be paid his week's wages out of an unfinished, or an unsold, or a worthless product? Let the residual-claimant theorists answer. No laborer ever works for an employer on the basis of being paid out of his future product; if he did, he would, in thousands of cases, simply receive nothing; in thousands more he would have to wait months and years to realize his so-called share of the product. A theory which thus collapses as soon as we contemplate unsold goods, or an unfinished job, or a business failure, and which ignores the facts that the laborer always gets his pay, finished product or unfinished product, goods sold or goods unsold, goods valuable or goods worthless—such a theory, I say, must be pretty rotten; but the theory gets a bewildering dash of additional incongruity when we contemplate that General Walker states in another chapter¹ that “wages may be advanced out of capital, but are paid out of product!”

Let us see what “advanced” means in this passage. In ordinary business transactions to advance money is to furnish money beforehand with a view of receiving back its equivalent subsequently. General Walker here evidently means that the capitalist reimburses his “advance” to the laborer out of the subsequent product of the labor. Undoubtedly the capitalist expects and hopes to do something like this, but, as a matter of fact, he does nothing like what General Walker implies. The laborer is not at all in partnership with his employer; he contracts with him for his wages entirely regardless of the product of his labor,

¹ “Political Economy,” Part VI., Chapter V., p. 367.

and does not in any way agree to receive his pay out of the future product or out of the proceeds of its sale. Unless the laborer specifically agrees with the capitalist to make his wages contingent upon the profitable sale of the future product, and thus takes his chances of a loss, he is necessarily paid out of the present wealth or capital. We might even go further and give the residual-claimant theory the benefit of the extremest case. We might suppose that an employer hires his labourers by the week ; the product is finished, say, at four o'clock on Saturday, is sold at five o'clock, and the laborers are paid out of the proceeds immediately after. Even here the theory cannot hold, because it tacitly would assume that the product always is sold immediately after being finished, and that the pay of the laborers depends upon its sale, and that the proceeds are necessarily always enough to pay for the labor. All this, we know, never takes place, and the impregnable facts remain that the employer is bound to furnish the wages under all circumstances—whether the goods are finished or not, whether they are sold or not, whether their proceeds amount to anything or not, whether the goods are destroyed or not—otherwise the laborers would be dragged into the precarious position of having their pay depend upon the success or failure of the business undertaking. In fact, General Walker curiously enough flatly contradicts his own doctrine by saying that the employer “advances” the wages of the laborer. In “advancing” he does not pay them conditionally, but he gives them the wages outright after their week’s work is done. Now, out of what does he “advance” these wages ?

Surely not out of the product (which may be unfinished, or unsold, or worthless); he naturally "advances" these wages from present wealth either in his or in somebody else's possession. Even if he has mortgaged the future product and thus paid his laborers, that has absolutely nothing to do with the laborers, who do not care a row of pins where their wages come from as long as they get them. The money borrowed by the employer on the security of the future product always is present wealth; if the lender of the money for wages has no other security than the future product, then he is simply basing the reasonableness of his loan on his confidence in the possible future success of the industrial undertaking of the employer of labor. But are the laborers making their pay depend upon the value and proceeds of the future product? Not at all; they have not agreed to make their pay contingent. The employer has expressly promised them their definite wages, which he must give them no matter how the business undertaking may turn out. Thousands of times laborers are paid wages although the product of their labor has turned out to be utterly worthless; and when occasionally an employer does not pay his laborers, because he has not realized enough from the product of their labor, such cases only show that capitalists are sometimes reckless or unscrupulous, and therefore are unable to fulfil contracts into which they have entered.

Advocates of the residual-claimant theory may say that inasmuch as the employer always expects to recoup himself for his outlay from the product, that

the laborer is thus paid out of it; that no man employs labor steadily unless that labor produces a product sufficiently valuable to pay for it. Of course not; the undertaker of business *expects* the product of industry to pay for all his outlays. But expecting a future reimbursement for present outlays out of a future product, and paying a present outlay of labor out of a future unknown product, are two fearfully divergent notions. The payment for outlays can only be made (unless the recipients take their chances) out of existing present wealth, and without this present wealth for necessary outlays, including the payment for labor, production itself is well-nigh impossible, except on the most primitive scale.

If political economists, instead of formulating philosophical economic abstractions which have no counterpart in real life, would only take the ordinary business man's view of economic life as it really is, such mischievous absurdities as the notion that a laborer is paid not out of present wealth but out of wealth in the process of creation, would probably never originate. The source of the laborer's wages—whatever may be the theory concerning the principle governing its *amount*—is about as simple as any economic fact can be. Unless the laborer definitely agrees to take a particular portion of the future product of his labor, he is necessarily paid out of capital or present wealth.

The residual-claimant theory of wages is the most deplorable example of impossible doctrine, calmly propounded and generally accepted, but which has not the slightest foundation of actual fact. Its falsity is seen from the following

tacit assumptions:—It falsely assumes that the laborer's pay is made dependent on the product; that the product is always finished and immediately sold in time to pay the wages; that the product always really does exist; that the proceeds realized from the product are always enough to pay for the labor and other expenses. The theory, moreover, glaringly ignores the following very simple facts:—That the laborer never agrees to be paid out of the product, or to have his payment made contingent on it; that the product is often destroyed; that the product often takes months and years to complete, during which time the laborer is being paid; that the product often lies unsold for months or years after the laborer has been paid; that the product often is worth nothing although the labor has been paid for.

The trouble with the fancy economists, who have amused themselves with the theory that the labor is paid out of the product, is that they have mixed up two entirely different matters—the question of some economic law governing the amount paid for wages, and the wholly futile and unnecessary question of where the wages of the laborer come from. This latter is about as simple as can be; the wealth which exists and not the wealth which is being created contributes to the support of the laborers. There is no objection to speaking of a so-called wage-fund as long as we understand by it the amount of wealth which investors are able and ready to pay out in wages. Some of the older economists have undoubtedly made indefensible statements of the rigidity of this "fund." All that is practically left of the so-called theory of

the wages fund is the simple truism that wages are paid out of capital or present wealth. Is it not high time that political economy ceased promulgating so utterly undemonstrable and false a doctrine as the residual-claimant theory of wages, and simply recognized the obvious fact that the payment for wages is necessarily made out of capital?

We have explained that all expenses of production must necessarily be made, if paid for, out of present wealth. In other words, the undertakers of a productive enterprise invest or sink the available wealth at their disposal in some productive enterprise, and the party who risks his wealth (the capitalist), or the party who risks his labor of management (the manager), necessarily must wait for his reward out of the future product. The landlord, we know, is generally not a partner, and expects his rent unconditionally, and the laborer, we know, nearly always contracts for his wages, and takes no risks whatever. The risks of a business enterprise, therefore, almost always fall either on the capitalist or on the manager, or on both. If the manager is using borrowed capital (for which he has given security) at an agreed rate of interest, all the risk of getting or not getting a future reward for his labor is his. If the manager is merely hired at a fixed salary, the risk of getting or not getting a return from the invested capital, or of possibly losing the entire capital, falls on the investors. Of course, investors and managers may make, as is often the case, agreements by which the risk of getting or not getting a future reward is shared by both. But some element of risk always

exists in productive enterprise, and at least one factor in productive enterprise must wait for his payment till the goods are sold, and this payment is entirely dependent upon the problematical future success of the productive undertaking. The laborer very rarely shares in the risk ; he gets his wages as per contract, whether the enterprise is a success or a failure ; the landlord is generally in a similar position. But the safety of the laborer, who is absolutely sure of getting his wages at the end of the week (unless the employer violates his contract), does not exist for the manager unless he is under a fixed salary, in the same way as the other laborers ; nor does it exist for the capitalist unless he has substantial security for the return of his capital and the payment of a definite interest. Furthermore, if land and labor are both hired at fixed rent and wages, the payment of both manager and capitalist cannot possibly be absolutely sure, for at least one of the two must wait for his reward (whether interest on the capital or wages of superintendence) out of the proceeds of the business.

To summarize the results of the discussion in this chapter : all expenses of production are paid out of capital, which can pay, at the most, only three of the four factors of production (landlord, laborers, capitalist, manager)—at least one factor in the production must wait for his reward, if he gets any at all, out of the future product. This element of risk or contingency of future reward is voluntarily assumed by at least one factor of production, very rarely by the laborer, and that any theory of wages which is founded on the baseless doctrine that the laborer is paid out of

the product of his labor, by which he must necessarily be made to share in the contingencies of enterprise, is essentially false both in theory and in fact.

JWR

CHAPTER VII

THE LAW OF DIMINISHING RETURNS

AN essential economic fact with which mankind must reckon, under whatever system of society it chooses to live, is the law of diminishing returns. This principle, which applies most clearly to agriculture, is usually deduced from this industry on account of its easy comprehensibility in this form. It has been best and most clearly explained, perhaps, by Alfred Marshall in his "Principles of Economics,"¹ and we shall follow his general lines in explaining the same.

Let us assume a given area of land, and proceed to raise from it wheat or some other agricultural product. The land is of a given natural productiveness, and the cultivators of it have at their disposal the existing powers of labor and capital. It is only reasonable to admit that the more labor and capital be applied to the land, the larger will be the product from it; but this by no means involves the conclusion that the average product will keep increasing, according to the average amount of labor and capital that is added to it, in increasing quantities. The proof of this fact is very easy. Let us start with a single quantity of labor and capital to apply to the land, a

¹ "Principles of Economics," Vol. I.

“dose of labor and capital,” as Marshall has expressed it—we will then obtain a given product which we may assume to be some reasonable quantity of wheat, as 10 bushels. We then have the formula:—

Application of Labor and Capital.	Total Product.
1 dose.	10 bushels.

Now the land may be in such a favorable condition that if we applied increasing doses of labor and capital to it the gross product might not only be greater, but even the average product might be greater for each “dose”—and this result might even go on for a long time. We would then have some such formula as the following:—

Application of Labor and Capital.	Total Product.	Average Product.
1 dose.	10 bushels.	10 bushels.
2 doses.	30 „	15 „
3 „	51 „	17 „
4 „	72 „	18 „

As long as this condition prevails, it is obvious that the larger (or more numerous) the “doses” of labor and capital applied to the land the larger the average return for single “dose.” But it is perfectly clear that this cannot possibly go on for ever. Sooner or later a point will be reached when an additional application may increase the total product, but the average must necessarily begin to diminish. Were this not true, the productive capacity of any given area of land would be infinite, and this, of course, is

never so. We will then have a formula like the following :—

Application of Capital and Labor.	Total Product.	Average Product.
4 doses.	72 bushels.	18 bushels.
5 „	80 „	16 „
6 „	84 „	14 „
7 „	91 „	13 „
8 „	96 „	12 „
9 „	99 „	11 „
10 „	100 „	10 „
11 „	etc.	etc.

The above figures are, of course, arbitrary, and are chosen merely to represent the principle as it necessarily must work in nature. It will be seen that there is essentially a point at which the highest *average* product to *each* dose of labor and capital expended in production is obtained. What this point may be can only be known by actual testing, but this point unquestionably exists. In the illustrative example a *higher average* is necessarily obtained up to a certain number of “doses” of labor and capital (four “doses” in the example given), and after that, successive additions to the previous “dose” keep diminishing the average return for each of the doses. Up to the point of highest average the land is said to be in the condition of increasing returns ; when that point is passed, the land is said to be in the condition of diminishing returns. The point at which the change from increasing to diminishing returns takes place may be termed the point of maximum average

productiveness or the point of highest average returns.

Of course, many circumstances may occur which may throw the point of diminishing returns further distant. More skilful labor may be employed, or more effective capital in the shape of improved devices for cultivation may be discovered, and thus the condition of increasing returns may be kept up longer, and the average maximum productiveness may become higher; but such circumstances have no influence whatever on the general principle. We are always dealing with the *existing* productive condition of the land, the existing productive efficiency of the labor, and the existing productive power of the capital employed; and under the conditions existing at any moment, there is necessarily a point of increasing average returns, of highest average returns, and of decreasing average returns.

In the above principle we have conveniently taken the product quantitatively, and figured on the highest quantitative average to the "dose" of labor. We might substitute for the average quantitative result the average market value of the product. This would lead to the same conclusion. The value of the total product would necessarily increase in proportion to the total outlay, reach a highest maximum, and then diminish.

The principle of diminishing returns applies in the clearest manner to agriculture, but in manufacture it is equally true. An increased quantity of almost anything can be produced by an increased outlay, but a total product or its total market value cannot be

perpetually increased in such a way as to always bear the same or a higher proportion (in quantity or in value) to a perpetually increasing outlay. A point must sooner or later be reached at which an increased outlay will not yield a proportional increase in the quantity of the product or in its total value.

This point of diminishing (or disproportionate) returns for outlay exists in all production, and is not subject to any modification by the human will. It is as much a fact of nature as the phenomenon of value, and, of course, must continue under whatever system society lives. It is, moreover, intimately connected with another essential economic or natural fact dependent on it. I refer to the principle of population, which is the subject of our next chapter.

CHAPTER VIII

THE LAW OF POPULATION

WE have shown that society has at its disposal at any time the existing land, labor, and capital for productive purposes ; that these resources are at any time limited in amount ; and that accordingly the annual production of distributable commodities is limited. This is true, *no matter how* the distributable commodities are divided up among the participants, whether equally or unequally. Furthermore, the law of diminishing returns is liable to operate at some time or other, *no matter what* the form of society may be. There is, therefore, a question as to the amount of commodities produced, and the number of persons among whom they are to be distributed. Obviously, the more eventual participants in the mass of distributable commodities, the less there is for each individual participant. Now, an increase in the mass of distributable commodities can only be obtained by an increased use of land or labor or capital, or of all three ; and this increase may, of course, be proportionally smaller to the average "dose" of outlay, according to the principle of diminishing returns. But an increase in the number of possible or would-be participants takes place by the natural growth of

population. This natural growth of population is the result of a powerful natural impulse implanted in man, and subject only to his individual will. Assuming an average normal physical constitution and an ordinary average indulgence in the impulse of propagation, there must essentially, as biology shows us, result an increase in the number of any living species, whether of an inferior animal or of man (assuming, of course, the ability to survive). The rapidity of the possible increase of numbers varies considerably in different animals; extreme examples would be the rapid prolificness of rabbits on the one hand, and the comparatively slow powers of reproduction of elephants on the other. It has been shown by Darwin that if all the elephants produced from a single pair and its progeny survived, there would be living at the end of five centuries no less than 15,000,000 elephants. Man can multiply much more rapidly than the elephant. In most civilized countries population has been doubling itself for the past 150 years almost every 30 years, and in the United States even more rapidly. If this doubling could go on at this rate without any external or internal check, the population of the United States would in 200 years exceed the tremendous figure of 8,000,000,000 human beings, and in a century more beyond 64,000,000,000. Now, it requires no discussion to show that this is manifestly impossible unless unheard-of resources of maintenance can be discovered for such fearful numbers. The fact is that the existing population has at its disposal only the existing resources of sustenance, and these, we know, are limited by Nature herself.

Nature permits us to multiply, if we will, at pleasure ; but Nature has not decreed that there shall always be the means of sustenance for all that are born. Consequently, unless the resources of maintenance are increased correspondingly to the increase of population, the average to be distributed to each individual continues to go down until a further increase in population is simply checked by the inadequate means of rearing offspring.

This is in substance the Malthusian doctrine of population, a doctrine much misunderstood and misinterpreted by superficial and sentimental people, but a theory which is grounded in ordinary common sense and in Nature itself. It simply says that under given conditions of material resources, only a limited population can subsist in a certain average state of comfort. As long as the increase in population does not outrun the means of subsistence, all is well ; but as soon as it does, then there is necessarily a diminished average to go around. The average amount of subsistence may thus be comfortable for a certain population ; it may even be higher under a larger population, if the resources are still in a condition of increasing returns ; but sooner or later an additional increase in population must result in a diminished average.

The objections to this doctrine are founded on misunderstanding and ignorance of the facts. It is frequently urged that the resources of the world are capable of sustaining a much larger population than it has at present ; that the United States could sustain a much larger population than it has now. This is perfectly true, but that does not answer the

doctrine. It is little comfort to the teeming millions of India or China that there is ample room and sustenance for them in South America or Africa, or that the surplus population of Europe could be amply provided for in the unoccupied land in the United States. If they have not the means to change their locality, that open room and sustenance have no practical existence for them. Again, it is objected that the population never does actually exceed the means of subsistence. Of course not. As soon as this would take place actual starvation prevents the increase and takes off the surplus. Nature is extremely indifferent to what becomes of the individual. If the wherewithal to live does not exist for him, she remorselessly lets him starve. Again, it is calmly asserted by optimistic people that, although the Malthusian doctrine may be theoretically correct, it has no practical bearing on the present time, and may therefore be left entirely to the future. This is untrue. The doctrine applies both now and in a calculable future to every people, to every locality, and to every individual family. The problem may be more pressing to different localities or families, or at different times. It is all nonsense to say that because two hands come into the world with every mouth that the two hands must necessarily be able to find a field of employment. The anti-Malthusian must prove that there will always be resources to employ the two hands, that the two hands will necessarily live to be useful, and that the use of the two hands will not strike the community at the point of diminishing returns. This we know the anti-

Malthusian cannot do. The question is entirely one of producible commodities, which are the dividend, and the possible number of persons which are the possible divisor. The quotient cannot remain steady or increase unless either the divisor decreases or the dividend increases, or unless the divisor does not increase more rapidly than the dividend.

Everywhere we are confronted with the phenomenon of over-population—in localities, in provinces, and especially in individual families. Such a condition exists whenever a certain number of people cannot find employment, or when the existing means of subsistence are inadequate for the support of a given population. We see it very strongly in a family which is uncomfortably great for the existing resources of the maintainer of it. Millions of individual men would have life much easier for themselves if they had fewer children dependent upon them.

The checks to the increase of population were defined by Malthus as the positive and the preventive. The positive check is anything that shortens life, such as war, disease, famine, crime. The preventive check is moral restraint. It is obvious that the preventive or prudential check operates only among people sufficiently intelligent to appreciate the cares and responsibilities of matrimony, and the rearing of offspring; while the positive check, in the form of disease or starvation, operates among the less intelligent and lower orders of humanity. It may seem harsh to say so, yet we all know that the poorer classes of all countries are singularly reckless in entering the marriage bond and in propagating

children, and a proper understanding of this vital question hardly reaches them. It does not require profound philosophy to see that a given salary or given resources cannot go as far for a man with a large family as for a bachelor, or for a man with a small family. Now, whether a man can support a wife and children with his resources is left entirely to his own judgment and discretion; and if he is too ignorant or too reckless to balance properly his economic situation, he and his eventual offspring must necessarily suffer. And the eventual suffering is unhappily not confined to the individual and his family; it may make it harder for everybody else competing in the struggle for existence. The individual's recklessness may throw the support of the children he has created on the community; he himself may not be able to save anything for his old age, and his conduct may cause a larger augmentation than desirable of the eventual laborers in the future labor market. Individual recklessness thus not only punishes the individual himself, but also inflicts irresponsibly the community at large. We are yet far from regarding such brutish disregard of moral responsibility with that odium which it deserves—the bulk of society is by no means yet educated up to such a high standard of public opinion and public censure. But when all people shall have had an opportunity of learning the real facts of this problem of population, we shall assuredly not only recognise the evils with which the reckless and irresponsible increase of population burdens the community, but shall visit the indi-

viduals guilty of it with that odium and contempt which they merit.

The question of population and subsistence is one which cannot be talked down or laughed down, or disregarded in any way. Socialists generally have a cool and easy way of ignoring the whole subject. Every one with a grain of sense must perceive that under no system of society can population go on unchecked without injury to somebody. No socialistic community could guarantee subsistence to perpetually increasing numbers, even if commodities were to be distributed equally for all; a constant increase of numbers would keep diminishing the average as soon as the principle of diminishing returns would operate. Furthermore, whatever the wages be to the producer in the socialistic community, the same amount of wages would not be the same for a single man, or for a man with a small family, as for a man with a large family. And if the man with a large family were to claim and receive more from the community for his family needs than a single man or a man with a small family, this would be simply paying a bounty on propagation—a suggestion too outrageously unjust to be entertained for a single moment.

To sum up the results of this discussion, the doctrine of population is an essential economic fact, with which any form of society has to reckon. And this is so, because it is grounded on the relation of the essential facts of our material resources and of the tendencies of human nature itself.

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PART II

THE PRESENT SYSTEM OF SOCIETY AND THE SOCIALISTIC PROPOSAL

CHAPTER I

THE PRESENT SYSTEM OF SOCIETY

THE present system of society is based on the right of property and on individual initiative, the State's interference being chiefly confined to the protection of life and property.

By the right of property is meant the right on the part of individuals to acquire property, to use it, to lend it, to sell it, to give it, to bequeath it, and to inherit it. The community recognizes existing titles to all forms of property and protects them; questions of disputed ownership it settles by the process of law, and enforces its decisions with the strong arm. In order to avoid the general confusion of perpetual contests about the title to property, it fixes by statutes of limitations the periods within which existing ownerships may be disputed and decided.

The production and distribution of wealth is left almost entirely to individual men. Each man is

practically a free-lance, looks out for himself, and is allowed to make his own terms and contracts with others as best he can. The State guarantees to no individual a livelihood. All it attempts to do is to protect him in his life, his liberty, and his property—these being the principal rights which society guarantees him.

The State is thus a kind of policeman and judge, and maintains the public peace by means of its physical force, which is derived from the community. When it interferes with private property or individual liberty, it does so for the most part directly or indirectly, as a policeman and protector of common interests, such as life, public health, morality, and the like. On these and other various interferences and regulations it is unnecessary to dilate; their extent and character must necessarily be based upon experience and expediency. The regulation and control (not ownership and management) of artificial monopolies, such as railroads, are not socialistic, because here society gives or lends more or less valuable privileges or utilities to private persons, and very properly should make its own terms for such sale or loan.

Socialistic actions on the part of the State are, strictly speaking, only such as cannot be connected with the State's essential business of protecting life, property, and liberty. Among such actions would be the compulsory limitation of the hours of labor in which one private individual could work for himself or for another, the compulsory fixing of wages to be paid by one private person to another, the under-

taking of any business of the nature of production and distribution or of transport, the manufacture and distribution of gas, the ownership and management of railways, the post-office, and various other forms of production and distribution. I shall not here discuss with what success the State anywhere in the world at present manages any of its state industries, whether as well as private enterprise could manage them for the interests of the whole community, or better, or worse.

As has been stated above, the present system is based almost entirely on private property and individualism. Each responsible person is left with his own resources and his environment to solve for himself the problem of existence as well as he can or will. Whether he succeed in solving this problem to his own satisfaction or not is his own affair. It is recognised that persons are very differently endowed with the gifts of nature; and that the accidents of birth, fortune, surroundings, opportunities, and other fortuitous circumstances, also have an enormous influence on the social possibilities and chances of success and happiness of individual men.

It cannot be denied that, assuming for argument's sake all other things to be equal, the strong are better able to succeed than the weak, and the intelligent than the dull, no matter what the system of society may be. Nor can we fail to see that much of the success of individual men is due to the mere accident of opportunity, while much of the failure is due to the mere accident of lack of opportunity. It is equally undeniable that in a contest of interests

the person of large resources is in a position of relative advantage over the person of smaller resources, and is generally able to fight harder. Hence there exists in society a tendency toward the survival of him who is best able to adapt himself to his surrounding circumstances, while he who cannot so adapt himself is gradually eliminated. There is thus a fight of all against all, and the weakest naturally tend to go to the wall. But it must by no means be inferred that this is generally a fight to the death, and that each man has hoisted the black flag against all his fellow-men. Considerations of mutual forbearance, kindness, morality, and expediency have a very powerful influence in mitigating the bitterness and ferocity of the struggle for personal advantage; and these factors must be recognised as playing a very important part in the life about us, in spite of the natural egoistic or selfish tendencies of the race.

I believe the above is a fair description of our present system as it really is, and it is the system which has grown up with the ages. The onward course of humanity along the road of life is marked by vast inequalities of ability, of fortune, of opportunity, and by much and painful suffering. It is by no means an ideal picture for the friend of humanity to contemplate. The imagination can easily conceive a brighter and happier state of humanity, in which ability would be more evenly distributed by nature, in which opportunity would be equal for all, and in which there would be no want or suffering except such as is created by moral perversity. We have the

world before us as it is with all its varied inequalities, and each individual may consider its good or evil from his own standpoint. But with all the world's present evils, the practical man of thought or action must consider whether any artificial transformation of the present system is practicable, and whether such an essential transformation would mitigate or remove the present evils, and thus redound to the greater progress and happiness of the mass of humanity, or whether such a transformation would only intensify present ills, and create new ones worse than those under which we now suffer. Society as it is, has been developed very slowly and painfully; its wealth is not unlimited; a successful experiment with its resources might yield grand achievements; but an unsuccessful experiment with its resources might result in gigantic loss and disaster and ruin to all. What we have, we know; what we may get is wholly a subject of calculation and experiment. The burden of proof therefore rests with the detractors and assailants of the present system to show that any other system is practicable; and even if it were practicable, that it would eliminate the present evils without calling forth new and worse ones. This is what socialists have to prove.

CHAPTER .II

THE SOCIALISTS' INDICTMENT OF THE PRESENT SYSTEM

THE socialistic indictment of the present system of society consists of certain counts, based variously on so-called "natural rights," "justice," "equality of men," "right to live," "right to opportunity," and other abstractions. Amid many pathetic appeals and much fulminating rhetoric, we can discover in the general attack on the present system certain distinct lines of argument. They are the following :—

1. The greater part of the existing wealth has been *wrongfully* acquired in the past by private individuals.

2. By the possession of this wealth in the form of the instruments of production, the owners are able to exact a payment in the shape of rent and interest from those to whom they lend it ; or else they may withhold the use of this wealth altogether if the terms do not suit them.

3. The "opportunity" of producing is thus the property of the possessors of the instruments of production, for which the non-possessors must pay.

4. Each individual has a *natural right* to an opportunity to use the instruments of production ; hence, as opportunities come only to those who can

obtain them or who can command them, while others are barred out, the present system is wrong, and should be replaced by some other system in which opportunity shall be equal to all.

5. The owner or manager of capital thus buys labor from the laborer, whose inferior position places him at a great disadvantage in settling the terms of the bargain. He then sells the product of the labor for more than the labor has cost him and thus reaps a profit which labor itself has created (!). The exchange of labor for wages is never fair, because *unequal* values are exchanged (!), to the disadvantage of the laborer; whereas in exchanging commodities, equal values are always exchanged. This "surplus value" created by labor and reaped by the capitalist enables the capitalist to keep accumulating, and thus gives him an ever-increasing position of advantage in future bargains with labor. This has been going on for many years, and the present capitalistic wealth is really so much plunder from labor. The rich thus have been, and are, becoming richer and more powerful, and the poor become poorer and weaker!

I hardly think the socialist has any other guns in his artillery to shoot off at the present system; he probably needs no more for his purpose. The question, however, arises whether these pieces of socialistic ordnance will go off at all; and if any of them do actually go off, whether they make any other impression on the present system than an empty noise.

CHAPTER III

REPLY TO THE SOCIALISTS' INDICTMENT OF THE PRESENT SYSTEM

WE will now take up one by one the various points in the socialistic indictment of the present system and see whether any of them are true; furthermore, whether the truth of any one of them is any argument whatever in favor of changing our present system of society.

1. It may be easily admitted that a great proportion of the existing wealth has been wrongfully acquired in the past; that huge properties (in land or other forms of wealth) have been accumulated in the past by the simple process of conquest or robbery; this has been especially the case with landed property in the early history of older countries. But when socialists speak about a restitution, several embarrassing questions immediately present themselves:—Which property can be proved to have been acquired wrongfully? When was it so acquired? By whom? From whom? These questions admit of no practical answer. Take the existing real and personal wealth in any locality, amounting in some cases to many hundreds of millions. Who shall decide which of it has been acquired wrongfully by its present owners?

Perhaps the past owners originally acquired some of it wrongfully. Very true; but how will you prove it? You would have to go back very far in the history of landed property to prove the cases. Furthermore, as most property has been changing hands for centuries, you could not confiscate any property without committing fresh injustice, and such a confiscation would very often strike property which has evidently been acquired honestly under our very eyes. There must be an end of disputed titles at some time. We cannot right the wrongs of the past by committing fresh wrongs in the present. Were such a scheme of confiscation proposed, the man who had inherited wealth from an industrious or fortunate ancestor, and the man who had honestly worked for it, would be equally despoiled, and no practical line of demarcation could be fixed. Common sense forces us to the recognition of existing titles, and to a statute of limitations for their disputes.

It is frequently urged that the wealth of some people is entirely due to external causes, and not to the thrift or labor of the individual. This is seen especially in cases where private property in land has often gone up enormously in value merely by the growth of population. According to socialists, such "unearned increments" ought not to belong to the individual, but to the community. Although this is said of land only, yet it is equally true of *any* form of wealth. All forms of wealth will go up in value when there is an increased effective demand for them. But it may be answered that all forms of wealth also go down in value when there is a diminished effective

demand for them, and this may occur in spite of the thrift and labor on the part of the individual proprietor. There is thus an "unearned loss" as well as an "unearned increment." Value exists only because there is an effective demand, and if the community can claim from the individual all his "unearned increments," it is equally bound to insure him against "unearned losses." This principle may also apply to labor, which may go up in value simply because of the increased demand for it, whether its efficiency has increased or remained the same.

Furthermore, were the existing property of the United States all confiscated, the result would only be to give each person an average of about \$600. The great bulk of the people have some wealth, and the penniless are comparatively few in number. Thus, whether the total wealth were distributed or held collectively, it would really mean a levelling of the comparatively few great fortunes downward and an equivalent raising of the resources of the small number of have-nothings. Unless socialists can prove that a general redistribution would not inflict fearful injustice, and that it would at the same time increase the efficiency of the existing wealth for the benefit of everybody, all talk about the existing accidental inequalities and the supposed "wrongs of the past" is empty wind.

2. It is true that the owners of wealth in any form, especially in the form of possible instruments of production, can exact payment in the shape of rent and interest for its use. Why should they not? The wealth which they have acquired is their private

property. Why should anyone have any right to the use of another's private property? The socialist may reply that these instruments of production give their owners an advantage in settling bargains with labor. Perfectly true. But the owner of any commodity (whether an object of consumption or an instrument of production) which is strongly in demand, is by nature in a position of advantage in exchanges. It is not my fault that some one wants to use my wealth. I am not responsible for his existence or for his necessity; and he has no more right by nature to the use of my property without my consent than I have to the use of his labor. No man has any natural claim on another person or on his wealth, whether that wealth be capital for production, or wealth merely for personal consumption. To deny that I have any right to ask interest or rent for the use of my property is to deny my right to my property.

Of course the "opportunity" to use the instruments of production is thus the property of the owner; but, on the other hand, the "opportunity" to use the labor must also be paid for by him who hires it, in wages (which are really only interest or rent paid for the use of the labor). Now the value of either labor or capital depends on demand-and-supply, and in bargaining for the use of either, the one who is least in need of the other has a natural advantage in settling terms. Is there anything wrong in this?¹

¹ Socialists constantly describe the bargaining between labor and capital (a perfectly natural conflict of interests) as though the person in position of relative advantage always exacted the

To assert that anyone has a right to use my property in the instruments of production at his own terms is again to deny my right to my own property. To say that anyone has a "natural right" to use another's "instruments of production" is equivalent to saying that anyone has a "natural right" to some one else's property. This would mean that if I accumulate from the rewards of my labor a few thousand dollars and use the same for consumption, no one has any claim on my wealth; but if I use my money as a capitalistic instrument of production, then every one has a free right or opportunity to use what I have accumulated, and I have no right to ask payment for its use! And the justification of such precious theorizing is the cool assertion that every one born into the world has a "natural right" to share in the use of wealth already existing and owned by private individuals (or by the community)! The logical outcome of such nonsensical reasoning is simply confiscation of all forms of wealth that may be used as instruments of production and simple communism in their use.

3. We now come to Karl Marx's wonderful theory of "surplus value." This doctrine is the very heart and marrow of the socialistic attack on the present system of production and distribution, and has been continually gaining favor through the influence of the ridiculous and undemonstrable "residual-claimant theory" of wages which economic theorists have

utmost; they constantly ignore the powerful influence of many considerations (see p. 76) which mitigate the "bitterness and ferocity" of the struggle.

popularized to their own discomfort, and to the great satisfaction and delight of socialists. That wholly untenable theory of wages was disposed of in a preceding chapter. Our business is now with the "surplus value" doctrine of the socialists.

Briefly stated, the theory is simply this:—the employer of labor pays for the labor at a contracted rate, his superior position as a bargainer enabling him to force disagreeable terms on the seller of labor; he then sells the product of the labor for more than the labor has cost, and thus reaps a profit which the labor itself has created. It gives one a saddening feeling of the capabilities of the human intellect to contemplate such peculiar reasoning in an intelligent mind. To the reader who has followed our chapter on Value, the answer to this doctrine has already been made.

The theory of surplus-value practically assumes the following:—(1) That labor has a permanent value in itself; (2) that a commodity necessarily has value because labor has been spent in its production; (3) *co* that labor is the cause of value; (4) that every production is always carried in such a way that the product is more valuable than the outlay in production. We have shown in the chapter on Value that nothing of this is true. The theory furthermore ignores:—(1) That the land and the capital and the labor of directing have also contributed toward the production of the commodity; (2) that the labor is paid out of the existing wealth; (3) and that the future value of the commodity is a matter of uncertainty and speculation, and depends wholly on demand, which is not a creation of labor. *555*

The value of labor is just what it will bring at the time; this is paid for out of present wealth. The value of the future product of labor (or rather, of the combined action of land, labor, capital, and management) is something entirely different. The product may be worth a great deal or nothing, according to the presence or absence of the effective demand when the commodity is offered by the owner in exchange. The burden of paying for the outlay in production falls only on those who invest their wealth. Again, the burden of finding the desirable market of exchange and of getting the profit, if any, falls entirely on the investor who has already paid for (or guaranteed for) the labor and other outlays; and if he takes the risk of loss, to him, and to him alone, do rightfully belong eventual profits if he is successful.

The assertion that the laborer alone produces a commodity is absolutely untrue. He is only an aid in production, like the land, the capital, and the manager. For his aid, he is paid what he will take, and is thus absolved from all risks in regard to the value of that commodity to whose production he has contributed. Even on a partnership basis, where he would take his chances of getting his share of the future value of the commodity produced, he could not possibly claim all. The men who furnish the materials and instruments of production and the labor of management would come in for their share, if anything of value were to be afterwards distributed.

The word "surplus-value" has really no economic meaning whatever. The value of a commodity is its

present exchange-power, regardless of the pedigree of the article. According to Karl Marx, if I buy a hat or a coat for \$4.00, there is an equivalent and fair exchange of commodities; this must also be true, then, if I subsequently exchange my new possession for two coats or for \$8.00. Leaving out considerations, for the benefit of the socialist's argument, my expenditure for raw materials, management, etc., if I buy labor for \$200 and sell its products for \$300, then this is, according to Karl Marx, an unfair appropriation of surplus value! This is economic reasoning with a vengeance. It would mean that if I buy anything at a given price and sell it again for more, the difference is a robbery of the previous owner. But the previous owner has parted with the commodity labor at its market value, and if he has been unable to command more, what right has he to complain? The effective demand alone gives any value to his labor or to the commodity which his labor has aided to produce.

Even a socialistic community could and would pay for labor only at its market value to it; and the future value of the commodity produced for the community would be merely a matter of estimate and calculation as at present. The article produced might turn out to be valuable or worthless just as at present. And if the community assumed the burden of paying its laborers out of its existing wealth for their labor, to the community would naturally belong the future value of the commodity produced. The only possible alternative would be for the laborers to share in the chances of future loss as well as of future remuneration in production; this the laborers at

present very seldom do, because they are generally unable to wait for the final disposal of the commodity they have aided in producing, and also because they are seldom in the position to bear the risks of eventual loss or non-remuneration. If, in a socialistic community, laborers were to produce and take their chances of remuneration from the future value of what they produce, the results might speedily cure them of the willingness to take such chances.

Another constant assumption of socialists may be disposed of here. Socialists constantly speak as if the world were made up only of a small number of millionaires and an ever-increasing number of poor people who have nothing. This is positively false. It has been proved over and over again by statistics that the laboring classes are better off in civilized countries to-day in every respect than they ever were before; they earn more money and get more for their money, and that even in so over-populated a country as England, with the reckless and improvident habits of the lower orders of the people, pauperism is constantly on the decrease. It is idle to waste time and space in demonstrating so patent a fact; if socialists persist in claiming that the poor are getting poorer, the burden of proof rests on their shoulders, but beyond making simple assertions without evidence, they never take the trouble to go.

So much for the socialistic indictment of the present system. It rests on the undemonstrable and untenable assumptions that we can possibly right in the present the supposed wrongs of the past; that each one who is born has a "natural right" to the free use of the

instruments of production which others may own; that labor is the sole cause of the value of anything and everything produced; that all values in property are not founded on demand-and-supply; and that a large share of these values has been produced by, and wrongfully withheld from, those who have created them—in other words, that most of the present private property is the accumulated plunder from unrewarded past labor, and that this plunder must go on for ever as long as the instruments of production are in private ownership. And for these bald assumptions there is not a tittle of proof which can stand the slightest test of argument or examination.

CHAPTER IV

THE SOCIALISTS' PROPOSAL ; AND WHAT IT CLAIMS

THE preceding refutation of the socialistic indictment of the present system need not distress socialists very much. When a man is determined to do anything, and manages to have the power to attempt it, he is not obliged to consider the propriety of his desire or the arguments, successful or unsuccessful, that opponents may advance against the grounds of justice and morality for his intentions. Assuming, for argument's sake, that socialists have at any time the physical force to attempt their modification of society, or that any such modification on their suggested lines will gradually take place in the course of evolution, the question of the justice or propriety of it ceases to be a matter of practical discussion.

We will therefore waive, in the further course of this book, the question of the socialistic indictment of the present system, as well as our refutation of the same, and deal exclusively with the changes in the present system proposed by socialism, and what eventual results are claimed for these modifications ; then we will attempt to examine the proposed changes, see whether they can possibly be made to work, and how they would work if tried.

Although socialists differ greatly among themselves as regards the future system of society which shall replace the present one, certain proposals are common to all the schemes suggested. The one fundamental and cardinal proposition on which all socialism must necessarily be based is, *that the instruments of production shall be the property of the collective community, that each member of the community shall be entitled to an equal opportunity for their use, and that each producer shall be employed by the collective community, and shall receive his remuneration from the community.* The question of *when* and *how* this scheme is to be initiated, or developed, or carried out, we leave open for the present; in fact, socialists generally give us little information here.

The advantages which socialists claim for such system of collective ownership and production are the following:—

1. There would be a saving in rent and interest which is now paid to the private owners of land and capital; or, perhaps, if any rent or interest were to exist in any way, they would be paid to the community. There would be a saving in the profits (wages of superintendence) now going into the pockets of the various undertakers of productive enterprise.

2. Each individual would have an opportunity to use the instruments of production, and to produce something socially necessary to the community. Each person would thus be sure of employment at something needed by society.

3. The large number of middlemen would be either abolished or greatly diminished, and only actual

contributors toward production would share in the commodities produced ; all consumers would therefore be producers, and only producers would be consumers.

4. As there would be no private ownership in the instruments of production, and as each producer would have an equal opportunity for their use, there would be no "exploitation" of the workers by the owners of these instruments of production ; no unnecessary middlemen would intercept as "profits" any portion of the product, and no capitalistic investor could dictate terms to the laborer.

5. The labor would thus be rewarded by receiving its "just" wages out of the produced commodities. But here the question of *how much* each laborer shall receive comes up, and this problem is inseparably bound up with the question of the *value* (and a measure of value) of each commodity and of each kind of labor. Some socialists desire to pay each laborer *according to his deeds*—that is, according to the product of his labour—while others desire all labor to receive a uniform reward measured by a time unit of measure, such as *one hour's* or *one day's labor*.

From these main advantages would, of course, spring all other positive advantages naturally dependent upon steady employment at satisfactory remuneration, and also all negative advantages from the disappearance of all or most of the evils and injustices and inequalities supposed to be due necessarily and exclusively to our present system of society.

We have thus stated the socialistic proposal and all that it claims. But it remains for socialists to prove that the scheme can ever be practically put into effect ;

that, if it could be put into effect, any of the advantages claimed for it would actually be realized ; and that the whole scheme would not call forth worse evils than those under which we now suffer.

PART III

THE EXAMINATION OF SOCIALISM

CHAPTER I

WHAT SOCIALISM HAS TO RECKON WITH, AND WHAT SOCIALISM MUST EXPLAIN

FOR convenience we may here repeat in summary the essential human and economic facts with which socialism must reckon, no matter how or when the scheme is attempted. These essential facts are: the natural mental, physical, and moral inequalities of men; human nature, with all its selfish and frail tendencies; the natural antagonism of interests between individuals; the social phenomenon of value, depending on demand-and-supply; the element of uncertainty in all human affairs and calculations; the law of diminishing returns, and the doctrine of population. These facts, with all their various implications, are no more subject to legislative regulation than the laws of chemistry or physics, because they are entirely grounded in nature. No artificially constructed scheme of society can possibly be made to work in defiance of these facts—nature acts in spite of popular

decrees and legislative enactments. To say that socialism will be perfectly practicable when human nature ascends to the high moral plane of the "ethical man" is to rob the whole socialistic scheme of all practical interest; the wait would be too indefinitely long.

I insist that no matter how or when the socialistic proposal be put into effect, whether gradually or at one bound, there are certain unavoidable questions which present themselves *immediately*, and call for *positive* and decisive answers from the moment that the scheme is decreed. I maintain also that the answers to the questions arising must be satisfactorily demonstrated to be consonant with the essential facts of human nature and human life, as well as with the essential economic facts of this planet.

The principal questions with which socialism has to grapple at the outset, before the scheme can be put into operation at all, are the following:—

1. How are the instruments of production to be acquired by the community?

2. How can you secure an administration in all its essential branches honest enough and able enough to administrate such a gigantic corporation with its enormous collective wealth? How can any collective agency be able to cope with the multifarious matters of detail which necessarily are the business of the administration to solve—what shall be produced, and how much, *i.e.*, the maintenance of some kind of equilibrium between demand and supply; how each man's capacity shall be determined, and at whose expense; how to give each man employment in some

line for which he is fitted ; what is to be done with the naturally dull, the idle, the vicious, and the recklessly prolific, and how an effective control and check could be maintained against their tendency to become parasites ? There are also innumerable other questions of detail.

3. Finally, the grand question of all : *How shall the apportionment of the rewards for the social labor be made, and on what basis of valuation ? How shall the value or exchange-power of the different commodities produced and the services rendered be determined ?*

The above are the principal questions which socialism must answer before it ever can become a practical possibility ; and a failure to satisfactorily answer any one of them means a failure of the entire scheme, for they are all bound up with one another. Moreover, these questions call imperatively for an answer, whether the scheme is introduced gradually or at a bound, whether the scheme is to subsist over a large or over a small geographical surface, whether the scheme is to be confined to one productive industry or to be extended to all.

A very remarkable phenomenon in regard to socialism is that its advocates seldom, if ever, attempt to plan out the various details of their socialistic community. The essential human and economic facts, as well as the unavoidable questions of management and production and distribution, are either studiously evaded or else only the crudest general answers to them are attempted. These matters are all "mere details," which human ability will easily be able to decide in the future, when the time for introducing the scheme

shall have ripened. How unfair and unreasonable for us humbler, more prosaic, and more materialistic mortals to expect the reconstructors of society to explain to us *how* their beneficent scheme shall be handled, and *how* its details are to be arranged! We must leave that to the future or to the evolution of society! But the reply to such a demurrer is very simple. Postponing the answer to unavoidable questions does not and cannot relieve socialists from the necessity of answering them. And until satisfactory and reasonable answers to the necessary questions are actually given, the whole proposal of socialism in any form has no practical significance, and must remain merely an exercise or amusement for ingenious minds.

I claim, furthermore, that socialists have no satisfactory answers to these unavoidable questions; and that *if the socialistic scheme were put into effect and administrated by the highest human intellectual powers possessing the highest moral character*, the only rational solutions to these unavoidable questions would at once land us back into the present system, with only the difference that the individual would be an employee of the community, and make his terms with the community just as at present he makes his terms with the other individuals; and that under this circumstance, the individual would not be in the slightest degree in any better position in making terms for himself, and he would actually be in a much worse position. The proof of these assertions belongs to this our last part.

CHAPTER II

HOW WILL THE INSTRUMENTS OF PRODUCTION BE ACQUIRED, AND WHAT WILL BE THE GAIN ?

I HAVE read somewhere that a cook of ancient times began his instructions for cooking a turbot with the preliminary advice, "First get your turbot." This self-evident injunction was rather superfluous, no doubt, but the getting of the turbot is none the less a necessary preliminary to the cooking of it. The socialists have a similar initial step before them. Before the supporters of the socialistic scheme can use the instruments of production for the collective community, they must first get them. But *how* will the community get the instruments of production ? There are only two ways : (1) By fair and honest purchase from the owners ; (2) by confiscation.

1. Let us examine the first method, that of fair and honest purchase at a fair market value. The first problem that strikes the socialist is, where is the money or compensation to come from to pay for the State-purchased instruments of production ? An honest purchase means a payment cash down, or a definite practical promise, with an honest security against future repudiation. Now, it is obvious that no country is in the position of giving outright an

equivalent payment to the owners for all their instruments of production; if it wanted to buy them all it would only do so by some method in which payment for them would be deferred and made in instalments. This would mean an enormous pension-list, amounting, for the United States, to at least several billions of dollars annually for many years; and this annual instalment would be a tremendous drain on the annual production. The sooner such a debt were to be extinguished, the severer would be the drain for that period. Capitalists and land-owners would be easily satisfied if the bargain could and would be honestly kept. Assuming, for argument's sake, that the scheme would be practicable, this arrangement would relieve them of all further care and risk in their land and capital, and would place them in the position of annuitants of a solvent and honest government. The government, in paying off the annuities, must really earn on the capital the present "safest" interest, *plus an annual addendum* for the gradual amortization of the debt. This addendum must be taken out of the gross annual product.

We may represent this diagrammatically in some such way as this:

$$\begin{array}{l} \text{Instruments of Production} \\ \text{" Labor} \end{array} \left\{ \begin{array}{l} \text{Gross Annual Product} \quad (x) \\ \text{Annual Pension List} \quad (y) \\ \hline z \text{ (or } x-y \text{) = net annual product.} \end{array} \right.$$

Making an allowance for the redemption of the annual wear and tear of the instruments of production, the net annual product produced and owned

by the community and to be distributed or re-invested would be the annual product minus the annual pension-list. Obviously, the annual pension-list would be definite, in amount, while the gross annual wealth produced would be indefinite, and a matter of calculation. The risks of the undertaking are entirely the community's. Whether the whole transaction would pay hinges on the question: *How efficiently the government would use these instruments of production.* From this depends also the question: What will be the net annual production?

At present the net annual average income from capitalistic wealth invested with a *minimum* of risk for *long* periods is several per cent. (say $3\frac{1}{2}$ to $4\frac{1}{2}$). In order to pay off the debt the government would have to make more than this amount on it. Or in other words, the annual product, from the safest use of the labor and capital, must be so much that the deduction of the pension-list from the gross product would leave an amount to the community at least equal to what *now* is paid to the wage-receiving community. If this net product were constantly equal to the present sum going for wages, then the government's gain would be the ultimate ownership of the instruments of production for an honest price; the ultimate gain would come quicker if the net product were greater, and if the community were willing to sacrifice a part of their net annual product, they could pay off the debt so much sooner if this were desirable. As long as the capital would make no more "safe" interest than now, and the net product would be no greater than now, the community would make nothing

by the bargain; in fact, could not carry the scheme through. The government would be, in fact, exactly in the position of an annuity company which undertakes to pay for a term of years a certain pension for a lump sum paid down now.

To illustrate:

(a) Present payment going to non-interest receivers, - - - -	\$25,000,000,000
(b) Present payment going to interest receivers, - - - -	2,000,000,000

Under socialistic beginnings:

- (b) Present payment going to interest receivers, x = annuities.
 (a) Present payment going to non-interest receivers, - - - - y = net-product.

In order to carry on this scheme to a successful and honest finish, without having any less go to labor than now, the capital *must* earn more (i.e., be used more efficiently) than it does at present; the scheme could also be carried out if the labor became more efficient, thus increasing the *net* product, and paying out of that the difference. The scheme could also be carried out if both the capital and the labor earned no more net product, provided that the difference required to sink the debt come out of the laborer's net annual earnings.

The point we wish to make is simply this, that the scheme of gradually buying off the instruments of production without diminishing for a long time the (present) earnings of labor can only be successfully carried through if under State management either the

capital or the labor earn, *as an extra*, the annual instalments on the debt for purchase.

If neither the labor nor the capital can earn this "extra," then the "extra" has to come out of a sum of wages no greater than the present annual wages, and then the game was clearly not worth the candle, for it could have also been done, if at all, under the present system voluntarily. And it would not (whether done by the State or voluntarily) lead to any more being given out annually in wages to labor. If, however, either the capital earn less (*i.e.*, is used less efficiently) or the labor earn less (*i.e.*, is less efficient), then the whole scheme is ruinous to the community, or else it must lead to bankruptcy and repudiation.

The burden rests on the socialists to prove that anything "extra" would be produced by either the capital or the labor under State production. But experience shows us that capital employed by the State is neither as efficiently nor as economically employed as private capital; and that State-employed labor is not as efficient or honest as privately employed labor. What practically demonstrable reason have socialists, then, for believing that either the labor or the capital in State hands would earn the purchase price to be paid to the present owners of the instruments of production. Does not all experience point to an entirely opposite result? The idea, moreover, that profits or wages of management can be made less is a dream: wages of management are paid according to ability and efficiency, and these necessary qualities you cannot command unless you pay for them.

The above arguments hold equally good if we apply the principle of honest purchase to one industry at a time.

2. Having shown that it is at least an open problem whether the State-owned instruments of production or the State-employed labor could ever earn the purchase-price for the instruments of production, we may safely infer that the transaction would only be a practicable one if the State could come into the possession of them without payment. This means simply partial or complete confiscation—a perfectly practicable scheme—if *the owners of the instruments of production were unable to prevent it by actual resistance*. Socialists are ever ready to tell us that as soon as they have secured the power to inaugurate their plan they will do so, regardless of what the rest of the community may say. It is just as well to remember that although we govern by means of elections, expressing the will of the majority at the polls, it does not at all follow that society must continue in this way if such a system is to land us into confiscation. Every one who fancied he had something to lose by a radical change or by a confiscation would be decidedly ready to resist if there were any chance of success. All government necessarily rests on physical force, and it does not all follow that because socialists might perhaps come into possession of the machinery of government and authority by means of a preponderance of votes at the polls, that they would have the necessary preponderance of physical force to carry out their intentions. In the event of a conflict, the destruction of

the very things fought for might be so disastrously extensive as to wholly obliterate any proprietary advantage to be derived from a possible victory.

Moreover, it should not be forgotten that if the accumulators of wealth saw this coming, they would be apt to withdraw their wealth from the country; and if that were impracticable, they would probably not accumulate. Security of ownership is a necessary condition of saving or accumulation, and it is more than likely that when expropriation would be about to take place, there might be precious little left to expropriate.

But we will waive this question of a struggle, and assume, for argument's sake, that society firmly bent on expropriation need only decree it and it would be done. What would be the advantage? Obviously the highest immediately attainable result would be a saving of the interest and rent now paid to the owners of land and capital. This is absolutely all in sight, whatever else socialism may claim as an ulterior result. Society could then carry on production without paying a tax for the use of the instruments of production. What service does this tax represent? The answer may be: the service of having accumulated it—by no means a contemptible one. But socialists claim that this tax is paid for the mere service of owning the instruments, regardless of how they were acquired. Even if this point were conceded to socialists that the owner of the instruments of production gets interest and rent for merely *guarding* these valuable goods while others use them, socialists have still to prove that this payment is too high.

The accumulation of this wealth, and the placing and maintaining of it in the highest degree of efficiency, has wholly depended on the one solitary fact: that the accumulators would just be able to secure gratification from either using it or lending it. Without this incentive, most of the wealth would not have been accumulated or created at all, and without this incentive nothing will be created by individuals, except what is needed for immediate consumption.

Under socialistic ownership of these instruments of production, it will have to be assumed that the gross product from the combined action of land, labor, and capital will be at least as great as at present—that is, collective ownership will produce on the average as much as the average amounts which landlords and capitalists exact in rent and interest, plus the average which laborers get every year in wages. The point made is not at all influenced by the fact that at present one payment, at least, is always contingent, and the rest go out of present wealth; while, under the purest socialism, it is the future wealth which comes to be divided. If the gross product under collective ownership and use were to result, by inferior use to these instruments, in a still smaller sum going to labor than under the present system, society as a whole would be even worse off than at present. For example, in a succession of years capital worth \$1,000,000 yields the owner, say, \$50,000 annual interest, while the labor gets, say, annually X-thousands. What right have socialists for believing that under collective ownership and use, that the capital will be as jealously guarded intact and efficient as at present?

Can socialists prove that under their system, the sum the laborers would receive, would still amount to the X-thousands even with the \$50,000 thrown in? At present the strongest possible motive operates in preserving the instruments of production as intact and efficient as possible—the motive of self-interest. Grant to the socialist, for argument's sake, that the whole labor of the owner consists in watching the property, the income-bearing and labor-aiding quality of which depends on its efficiency and integrity. Even this apparently insignificant duty of "watching" over it, for which interest and rent are now paid to the owner, would have to continue under socialism. Would it be done? Is there not a terrible danger, self-interest being now a fearfully reduced if not wholly abolished motive, that this "watching," for which we now pay interest and rent, would be infinitely less careful, and that the very instruments of production would lose considerable, if not all, value as aids in production from mere imperfect watching and inefficient use, and might yield as an annual gross sum even less than is now paid out annually in wages? Socialists may reply that this will not occur, but they are then forced to allege that the instruments of production will be as jealously preserved intact as at present, and as efficiently used, which would (if true) result in the saving of the rent and interest. But this is a mere assertion, for which no proof can be adduced. All that socialists can say is that each individual having a corporate share, will do all he can to guard that share and augment its productive sale. But it is not in human nature to guard anything owned in this

way, as well as something owned in absolute private ownership, because that all-powerful sense—the sense of private property—is wanting. Is it not evident that the all-powerful motive of self-interest is the only effective accumulator of wealth as instruments of production, and the only effective watcher over their continued existence and efficiency? And is it not equally clear that personal self-interest due to the sense of absolute private ownership is an infinitely stronger and safer accumulator of wealth, and a stronger and safer watcher over its continued existence and efficiency, than the interest due to a much vaguer and less tangible sense of wholesale collective ownership? These facts being true, is it at all certain that the price paid in rent and interest by the users of the instruments of production is too high or unreasonable, if private ownership turns out to be the only system under which these instruments of production shall continue to exist and maintain their efficiency?

I claim that if there is any necessary social function that society must have, it must pay for it the price at which the function will be rendered. If the social function of watching over the continued existence and efficiency of the necessary instruments of production can only be carried on by allowing these to be private property and permitting the owners to exact payments for their use, then society must reconcile itself to allowing them to remain private property, and to paying interest and rent for their use. Socialists could not justify themselves in their own eyes for changing this system unless they could prove that the

collective community would make at least as good a use of the same as is made at present. And society would make a fearfully bad bargain if, by abolishing the protection of wealth now effected by private ownership (for which "protection" rent and interest are paid), it were to attempt to save rent and interest by substituting a collective ownership which might be a very reckless and wasteful protector. The very thing owned collectively might lose infinitely more in value to the community than the annual tax now paid for its use to private owners.

At present the only payment for the use of the land and capital are rent and interest to the owners. Now the owners, in their own interest, guard the land and capital in as efficient and economical a manner as possible; from mere selfishness they employ no useless clerks, assistants, and other officials. Whatever payment we may make for the use of land and capital, we know that it has a maximum, and that the self-interest of the owner is an effective guard for their continued existence. How would it be under socialism? Is there not every likelihood that officials attending to a collective property are more anxious naturally to make themselves appear necessary than to really administrate it efficiently and economically?

The point I wish to make in this chapter is simply this—that the supposed immediate saving in rent and interest would only be real if the collective ownership of the instruments of production would mean as efficient and economical a use of them as is made at present, and if for any reason consequent upon collective ownership a larger average amount would come

to be regularly distributed as wages. If socialists could prove that this would occur by substituting collective for private ownership, then their case, as far as the presumptive saving of rent and interest is concerned, would be made out. But the proof of this point would really be the proof of the practicability of the whole general scheme of socialism; and until socialists can prove their scheme to be practicable, the supposed saving of rent and interest to the community, with the consequently greater amount to be distributed for wages, is merely a doubtful and undemonstrated claim, with the arguments of human nature and human experience against it.

CHAPTER II

THE SOCIALISTIC MANAGEMENT, AND WHAT IT WOULD HAVE TO DO

EVERY organization of human beings for any purpose whatever naturally has some supervisory, administrative, and executive arrangement by which are conducted the various details and purposes for which the organization exists. It necessarily must also be so with socialism, which equally requires some administrative machinery of general management. The necessary work which would fall on the general administration, as well as on its numerous subordinate branches, would be something tremendous, thousands of times greater than the work done by any government or corporation at the present day.

Let us take a concise view of the multifarious duties of the socialistic management. Its necessary duties would be the following :—

1. To find out exactly what articles should be produced and what services rendered, both as regards quality and quantity, for a community of many millions.

2. To find out each would-be worker's capacity, and to give him such work as is fitted for him, and is socially required.

3. To see that each worker actually performs what can be reasonably required from him or what he is pledged to do; that no one steals, idles, or bungles; in other words, that the collective interests of the whole community shall be protected as much as possible against losses due to the possible dishonesty, incompetence, recklessness, or laziness of its individual members.

4. *To apportion to the individual members of the community the rewards for their various kinds and amounts of social labor according to some basis of distribution*; that is, to see that each contributor to the common stock of social utilities receives his proper share of food, clothing, shelter, and other commodities to be distributed from the community's storehouses for individual personal use and consumption. This is really the problem of values and wages for commodities and services.

It is no wonder that socialists spend all their energies in explaining and denouncing the wrongs and evils of the present system, and merely suggest the various duties incumbent on their socialistic community, while they studiously fight shy of explaining how their socialistic "co-operative commonwealth" is to carry out the necessary details of its business.

The imagination may run riot in *conceiving* some all-wise and all-virtuous human agency to perform all these various functions; but the imagination, in its flights of fancy, is not obliged to consider imperfections of human nature or of human ability. Common sense confronts the socialist with the practical question: Where on this planet can you find the ability and

honesty necessary for the successful administration of such gigantic interests ? And such collective interests and property estimated by any measure of value would amount, not to millions, but to billions.

Some system of electing the administration and the various heads and managers could doubtless be devised without insuperable difficulty. But what reason is there for supposing that there can exist anywhere the wisdom to conduct all the collective affairs and interests of a whole nation ? At present the owners of wealth used in production have the greatest difficulty in finding talent and experience capable of successfully conducting business, and the larger the scale of operations the more rare is the talent requisite, and the higher is the price willingly accorded to it. A slight miscalculation often involves the loss and destruction of millions ; and the bigger the interests involved, the bigger the losses. Fancy for a moment the scale of loss into which a mistake in the conduct of collective social industry would plunge the community, and mistakes would occur in all branches. At present losses are principally borne by those directly involved ; under socialism, everybody would have to suffer not only from his own mistakes, but from the mistakes of everybody else. Socialists may calmly tell us : " Very well, then, a divided loss is felt less keenly, and the community would be merely the general insurer of each member." True enough, but the magnitude of the operations would involve a corresponding magnitude of mistakes and losses ; and each honest man has a lurking feeling that he would like to suffer only his own losses, and no other person's.

And if such a general insurance existed, some men who made the fewest mistakes would be constantly making up for the greater number of mistakes of others. Human nature kicks at such an unequal distribution of risks and responsibilities, in which one man indirectly is made to suffer disproportionately for his errors in favor of some one else more liable to them.

In fact, as soon as the magnitude of the labors of a socialistic administration is contemplated, the impossibility of finding the talent requisite for such tasks is apparent. Demi-gods could not cope with such work. Nor can socialists make any effective comparison with the large works now performed by the government, such as the management of a post-office or a railroad, or the maintenance of an army. As regards the post-office in all countries, and the railroad in some, their management is founded on the fact that government has a monopoly, can fix its own prices, and can practically force people to pay more than the service is worth under free competition; or by charging less than the rates would be under free enterprise, and then indirectly taxing the non-users of the same for this benefit to the users. Government monopoly means extortion and maximum cost to the consumer, regardless of the question whether free competition would make the burden lighter to him; or else it means a cheap service for those who use it, while the deficit is mainly made up out of the pockets of those tax-payers who use it least. Neither a government post-office nor a government railroad in any country

lives in any other way. They are parasites on the productive powers of other industries, which contribute a sort of quasi-tax for their use, wholly apart from what would be the competitive market value of their services, in the same way as other monopolies. This quasi-tax from the rest of the industries is the difference between the present cost to the rest of the community of the service, and what would be the cost to the community under free competition which reduces the cost of anything to the consuming community to a minimum? Any government can run some branches of industry in this way provided the drain on the rest of the industries be not too great to be borne. But it cannot run *all* industries in this way, any more than two creatures can be parasites on each other, or two persons can tax each other for their mutual support.

Even if the requisite ability could be found to conduct the whole production and distribution of a community (and such ability does not exist on earth), it is difficult to conceive that the handling of such vast sums of wealth would not expose the administrative powers to very powerful and almost irresistible temptations. At present every owner of wealth keeps the sharpest eye on the fingers of everybody who handles it for him. Human nature is frail, and it is much less apt to lapse from grace when the gaze of an able and interested watcher is on it than when that watchfulness is weakened.

Even now governments everywhere are characterized by the minimum of intelligence requisite for their necessary work, by the constant tendencies

toward incompetence, laziness, dishonesty, and wastefulness. These tendencies are natural because the sharp eye of individual private ownership is not on them, and collective ownership is never, and can never be, a good guardian of property. Every public official is in a tacit conspiracy with every other public official to get as much from the public, and to do as little for it, as possible. Above the natural market value of public services rendered by officials to the rest of the community, the community pays indirectly a heavy tax for their incompetence, laziness, dishonesty, and wastefulness.

Under socialism, in which the interests and properties managed by the higher officials would be multiplied a thousandfold, the opportunities for the frailties of human nature to play would be multiplied infinitely, and the ability of the community to watch over its collective interests effectively would be reduced to a mere shadow. The many thousands at the top of affairs would have to watch the conduct of the many millions at the bottom. Every man would have to watch the conduct of all other men; every group of officials would have to watch all other groups of officials; and every group of ordinary workers would have to watch all other groups of ordinary workers. This would be absolutely necessary to prevent human frailty from reaping unfair advantages for single individuals, and causing corresponding losses to the community from dishonesty, laziness, favoritism, incompetence, and wastefulness on the part of individual officials or workers. Can any man in his right senses, viewing human nature as it actually is, believe that

such a wholesale mutual watchfulness is at all possible?

Socialists are either living in a dreamland or else they are waiting for the advent of a human being whose counterpart has not yet been seen on this planet. Their so-called "ethical man," who is unselfish, who is willing to labor for others, who will always do his duty, who will always take his fair share without hankering for more, who will suffer inconvenience for the sake of his neighbor, and who is endowed with a thousand other benevolent virtues, does not exist, and will only come with the millennium. He is about on a par with the so-called "economic man" of the older economists—the man who always seeks every possible advantage, and yields only so much as is absolutely forced from him. The latter is a monster of unscrupulous selfishness, while the former is a wonder of altruistic virtue, and both are about as typical of the human race as a Shylock or a Father Damien.

CHAPTER IV

THE SOCIALISTIC ADMINISTRATION AT WORK

WE have thus far shown that the supposed saving of rent and interest cannot be proved, and is highly improbable, because land and capital are only kept in a state of soundness and efficiency by private ownership; that the enormous task of management and control falling on a socialistic administration is too much for any human ability that man has ever witnessed; and that even if the ability existed, the magnitude and variety and complexity of all the productive and distributive operations would give easy opportunities for the frail tendencies of human nature to operate, to an extent involving heavy losses and diminutions of production to the community. Let us, however, come closer to the socialistic scheme, and see how it will do its work.

The first thing to be done is to find what and how much is to be produced; in other words, to calculate the demand, and to adjust the supply accordingly. At present individual producers who invest their capital make estimates as well as their experience and judgment guide them; and, as they are not prophets, they sometimes make mistakes. When they have produced more than the effective demand

requires, they suffer the loss; when they produce an under-supply they may sometimes secure an unexpected gain from an advanced value or price. The natural tendency of producers is to try to secure the largest profits, and to keep the supply at such a point as will yield the highest prices for the whole stock sold. This they are least able to do when there is freest competition among all engaged in the same branch. The direct loss from making the mistakes of producing that which turns out to have no effective demand falls on the investor, and the final regulator of the business is often a court of bankruptcy at his expense.

How will socialism adjust demand-and-supply. It is suggested by socialists that careful statistics should be made from day to day by the heads of all departments explaining what the demand is or will be, and that the supply be produced accordingly. This looks pretty and easy enough, but it seems to assume that the demand for any commodity is always fixed, and can be foretold. This is never true of any single commodity. No man is sure of what he will want at a future time or how he will spend his money. All he can be certain of is that he will surely need enough food of some kind to keep himself alive, clothing of some kind, and shelter of some kind; but what kinds and what quantities of food and clothing and shelter he will want he cannot possibly predict. The differences here among men are simply infinite. Socialism might claim that it would make an estimate of the general average required, produce and keep in daily stock such averages, and sell or distribute them

according to some basis of valuation. But this is the very thing that the socialistic community could not do unless it were to wholly disregard varied demands and simply produce certain commodities which the community would be compelled to use. Moreover, men vary greatly in their individual consumption both at the same and at different times; and socialism would have to calculate how much of each commodity is consumed by the people in estimating the demand, and the supply to be kept on hand. Society is not like an army in which every soldier's supply of clothing and food and shelter is equal and uniform, although socialists are ready to make it so. In an army the individual has no choice in anything, and is under the strictest regulations in his conduct, and this would be necessarily so even if the army were to govern itself like a debating club, in which the majority votes would settle all. When we consider the extremely variable character of effective demand, how certain things are wanted to-day and are not wanted to-morrow, how some things are very useful at one time and useless at another, how some kinds of labor are absolutely necessary to the community at one time and are not needed at all at another, we may well be staggered at the question how government agencies are to discover all characters and amounts of these multifarious demands in advance, and to produce and keep on hand from day to day the supplies demanded by the general community. How book-keeping and audit are to be carried on on such a scale is a problem for the imagination. Socialists may say, "Very well, we will ascertain the

average wanted in a given period and produce it, and the community will have to accommodate itself to what has been produced, and individuals will have to take these commodities." If enough were thus produced to give each one what he is entitled to and what would keep him in comfort, there could be no objection. This would reduce the community to something very much like an army, ruled by its elected authorities, the individual receiving his proportion of the food, clothing, and shelter doled out to him, according to the regulations prescribed by the authorities ordered to supervise the whole business by the ruling majority of the people. Perhaps there is no valid reason why this should not be done, but the practical difficulty of carrying it into effect still remains; and socialists ought to explain how the figures are to be collected for the immediate or future demands for each commodity or service for millions, how the production is to be carried on to get the requisite supply, and then they must solve the *unavoidable question of distribution*, which is the grand problem of values and wages.

Another question immediately arises: How will the State find out the capacities of different individuals, and give them employment? What principles will regulate the choice of trades and the choice of employment in trades? At present each man experiments in this matter at his own or at some other individual's expense. He, or some one for him, makes some estimate of the possible future demand for some kind of service, and tries to acquire the capacity for it; if he fails in one thing, owing to the lack of

demand for the service or owing to his unfitness for it, or for any other reason, he tries something else. In all cases, his experimenting is at his or at some other person's expense; each man is on his own mettle to find something to do that is socially demanded, and to acquire the ability to do it. How is this to occur under socialism? How is the government to find out what is needed to be done, who is able to do it, and to give out the opportunity to do it to those willing and able? This is really the demand-and-supply question over again. How is the question to be settled—how many apprentices shall be put into each trade, and who is to be admitted and who rejected? If the State is to find employment for every one willing to be employed, it must of course guarantee work of some kind to every one. This, again, presumes that there is necessarily a constant and fixed demand for service of some kind from every one born and grown up; this cannot be proved and assumed, and even if it were true, the question would still remain whether the service demanded is one which the particular individual ready for employment is able to render. As socialism wishes to have opportunity free and equal, it would have to settle statistically the problem of how many tailors, carpenters, engineers, street-sweepers, milliners, etc., are likely to be needed at some given future time, and to take the supposably requisite number of apprentices in those trades from time to time. But how can the collective organization guarantee that this number at any future time will be correct? that there will be neither too many nor too few than are

requisite for performing the necessary amount of "social labor" required from each trade? Who is to suffer from the mistakes? If too many are already in a trade than are required, what is to be done with those engaged in it? If there are too few, society suffers as a whole. Mal-adjustments regulate themselves at present automatically, the advantages or losses, from too great or too little supply, falling on those engaged in a particular occupation, each one bearing his own risks and possible losses. This problem of finding out the capacities and employing them all is also another phase of the question of demand-and-supply, and is equally bound up with the problem of values and wages.

The system of socialism has also to deal with the irrepressible population question. Of course, an increase in population from immigration can always be stopped by a prohibition of foreign immigration, and this no socialistic or any other community would hesitate to do if it became desirable. But how about the increase of population from within, the result of natural growth? Socialists coolly avoid this whole question, but it cannot be dodged in the economic world. Every one knows that unless the increase of population is kept within the pace of the increase of means of subsistence, no possible device of society can prevent ultimate distress. Have compulsory restraints imposed by the State any chance of success with those portions of society which are now noted for their improvident and prolific marriages? Prudential checks based on moral self-restraint cannot be decreed by bills of legislatures. And if society is

to consider each new-comer as entitled to his proportionate share in the collective interests, would not the reckless propagation of progeny be constantly diminishing the average individual interest in the collective total wealth and resources and opportunities of the community? And if food and clothing and shelter were to be provided out of the common stock for each child born, would not those who had less children be constantly contributing towards the support of those who chose to have more? Even if family life is to be maintained, and the worker is to be wholly responsible for his children out of his earnings, would not the prevailing evils due to reckless and improvident marriages exist as before? And would not the principle of population and its influence on the average prosperity operate anyway? These questions are also studiously ignored by socialists.

Another important point now comes up. Suppose, for any reason whatever, any particular kind of labor should be no longer required by the community. This means that the rest of the community need no longer pay for such labor in either commodities or other labor, thus saving a share of its commodities or its labor which it formerly paid for the services now no longer necessary. The lessening of a demand for any kind of social labor does not depend on invention alone, but may occur from a thousand different causes. Of course, every laborer is vitally interested in the steadiness of the demand for his special kind of labor, and naturally hates any invention which may diminish that demand. Socialism

might prohibit all invention, as it probably would have to do if it attempted to guarantee steady employment to every laborer in some branch for which he is fitted. But the demand for any one kind may diminish from other causes, such as a change in the direction of the demand, or a demand for one kind of labor may diminish without a corresponding increase in some other direction. No matter how this occurs, the same problem comes up: What to do with those whose labor is no longer necessary? Socialists here reply that then such laborers will be put to some other social labor. But the question now arises: How do you know that the rest of the community wants any other labor for which it must give up some of its commodities or some other labor in return? The rest of society may prefer to consume its commodities or to labor less. But socialists may say: "If by invention, or from any other cause, some kind of labor becomes unnecessary, and society does not at that moment desire to pay for any other labor in its stead, then we will simply make some general reduction in the hours of labor so as to give the displaced or now unnecessary laborers a chance." This is logical enough on the socialistic presumption that each person has a natural right to a share in the corporate interests of society. But it seems to assume that displaced labor can always do a share of some other kind of labor, and that the displaced laborers of one branch of labor can be proportionately distributed over all the other branches of labor, and thus effect a general average reduction of hours. This may be to a very small extent true of

the highest kinds of labor, but it is absolutely impossible in the lowest grades of labor in which the poorest natural capacities would find their only possible fields. The necessary amount of social engineering labor at one time is one thing, and the necessary amount of social brick-laying labor is another. How these necessary kinds of labor are to be rewarded—a crucial question—is a decided factor in the whole problem. Even if the necessary amount of such high-class labor as that of engineers were to be reduced, does it follow that you could distribute a portion of the engineers over all other industries so as to reduce the general hours of labor all around? You could only distribute them over such branches as they are fitted for. The other branches would still have to work full time to produce their necessary supply of socially necessary commodities or services in their lines, and the question of the proportionate valuation of each line of labor and of the average wages to each kind of labor still remains open. The case looks even worse if we contemplate the position of the most inferior labor like that of street-sweeping, in which the lowest abilities find their natural field. Suppose only half of that kind of labor became, for some reason, unnecessary? That does not enable half of these unfortunates to be distributed over all other branches. What is then to be the position of this class in society? Their hours of labor could be reduced by half, and the rest of society would either give them half what they formerly got, or else the rest of society would be obliged to work just as hard as before, while these

inferior laborers would have their burdens lightened by half. But human nature is against an arrangement by which the rest of society continues to work as hard and gets no more than before, while it has to continue to pay for the work of two men where one is all that is necessary. We have here the problem of population, of values, and wages all rolled into one.

I have pointed out in a previous chapter the natural tendency of organised officialism toward general incompetence, laziness, dishonesty, and wastefulness. These tendencies are natural whenever individuals cannot be closely watched and sharply controlled, and the losses due to this cause are greater in proportion to the magnitude of the interests managed. In the socialistic hierarchy of State employees, from the highest executives and managers to the humblest unskilled laborers, when every one administrator would be managing not his own, but the collective wealth, and every laborer and every group of laborers (who are also voters) would have his ability and honesty watched, not by the sharp eye of the intensely interested private owner, but by the shadowy gaze of official inspectors and by a still more shadowy "public opinion," these frail tendencies would have still greater chance of working without correction or punishment, with the inevitable consequence of a greatly diminished total production. Would not each group and each individual in each group be constantly complaining of every other group, and every other individual in his group? And would not the proof of shortcomings of individual against individual, and

of group against group be impossible? Are not each administrator, and each group of workers, and each individual worker by nature selfishly bent on their own advantage? It is idle to say that each man will know that unless he does his full duty, the proportionate share of each will be smaller; and that consequently he will do his duty. He will do it only if he is paid for it what he regards is fair. If he believes that some one else is doing less and receiving the same pay, he will shirk and do inferior work. No man will work for another, and contribute more to the common stock, unless he gets proportionally more for it. We have here again the inevitable problem of how each laborer's service is to be estimated by the community, how it is to be rewarded, and how society is to be sure that it is getting its honest value of service from each laborer for his pay.

We now come to the consideration of that class in the community that may be called the failures of humanity. I mean those persons in the community to whom opportunities are of no avail, and who never get along on account of their inherent imperfections of character. We see such persons everywhere. In fact, if we look at the failures of humanity in our own favoured country I believe we will find, in a vast number of cases, reasons entirely dependent on the individual himself. We would find that one man was a drunkard, another an idler, another was shiftless, another a spendthrift, another was reckless, another dishonest, another contracted an improvident marriage, with all its consequences; while a goodly number would be found to be born incompetent without

enough natural intelligence or strength of character to render them capable of anything useful or of making a decent living for themselves. Unless such persons of bad or reckless habits, or of mere natural inferiority, are permitted to perish, they are more or less of a burden on the rest of the community. The drain which these wretched non-self-supporting creatures cause on the rest of humanity is considerable. They manage to exist in some way, by living on other people's substance; they are consumers without being producers to an equivalent extent; perhaps the worst feature of their case appears when they marry and bring children into the world, the burden of whose support falls on others. The problem of restraining the multiplication of the vicious and reckless and naturally inferior classes of humanity is one of the gravest with which society has to deal; and society has not yet discovered a method by which this restraint can be accomplished. What is to be done with these classes under socialism? Socialists may say that when "opportunities" shall be free and equal, the vicious and reckless will be mercilessly suppressed, or even exterminated if necessary. At present the fear of starvation is the only incentive that has any chance of keeping the vicious straight, and socialism has no better remedy. And how about those who, without having any positive vices, have not been endowed by ungenerous nature with enough intelligence or strength of character to make them of any use to society? Is socialism prepared to guarantee to them an existence from what

the rest of society produces? Moreover, if socialism is to guarantee each man an "opportunity," will not the only impelling power over them, the fear of want, be still more weakened? Again, unless some restraint is put on their multiplication, would they not tend to multiply still more rapidly than even at present when their recklessness in this respect daily imposes burdens on the rest of society? Under our present system of individualism the man who cannot get along is either supported as a burden by those who do, or else he is eliminated as unfit for his environment by the process of evolution and the non-survival of the unfit. This elimination or repression of the unfit is necessary for the common safety and comfort of the rest, even under socialism. But would it occur? Socialists can only allege that under their system the deserving and fit would have a fairer and more equal chance to earn a living, and the vicious and unfit, if any exist, would be more sternly eliminated as burdens than at present, because a socialistic state could and would only tolerate producers of social utilities and no parasites. But to prove such an allegation would be to prove the practicability of the whole socialistic scheme, and until socialists can do this, their supposed equalization of opportunity, with its necessary concomitant elimination of vicious and incapable parasites, remains an undemonstrated assumption.

The considerations mentioned in this chapter are wholly unavoidable in any system of society. It is no answer whatever for socialists to say that in the process of evolution the above problems will find their appropriate solution. Unless socialists find practical

answers to these problems of general management and production and other necessary matters suggested above, they are unable to try the system, even if they have the necessary physical power to begin their transformation of society. But they have still another question to settle, one which clamors even more imperatively for a solution, a problem whose difficulty of satisfactory solution is even more fatal to their entire scheme—I refer to the great problem of the *distribution* of wages.

CHAPTER V

THE QUESTION OF VALUES AND DISTRIBUTION

WE may now suspend our examination of the practical difficulties and impossibilities of collective ownership of land and capital, of administration, of management, of production, and of other matters, and turn our attention to another essential subject. In fact, we may waive all these details entirely as far as the purposes of the present chapter are concerned.

In the preceding chapters we have referred as little as possible to the problem of the relative values of commodities and services in the socialistic community and to the question of distribution. This problem of values and wages is perhaps the most interesting one in the whole subject. The question stated in its simplest form is: "How will the community reward each of its individual workers?" or, in other words, "How will the community estimate the social value of each individual laborer's services, and reward him accordingly?" We have shown in a previous chapter¹ that the value of any commodity—and labor is also a commodity—is its power of exchanging for some other commodity, and that this value thus depends on the willingness and ability of the two exchanging parties

¹ Book I., Chapter IV.

to effect an exchange at some agreed terms. This is necessarily true also in a socialistic community in which the exchanging parties would always be the individual on the one hand, and the rest of the community on the other; there being necessarily two parties to any exchange, who may differ very much in their estimates of the value of the articles they wish to offer in exchange. Some system of valuation and some common measure of valuation must exist.

In the present system of production and distribution this question regulates itself automatically; and except where the clumsy barter system of exchange exists, the value of things is estimated, and exchange is effected, by using a convenient homogeneous measure of value like money in the form of gold or silver. Such a common denominator or measure as gold could also be used under socialism; but socialists generally wish to do away with money as a measure of value, and substitute labor in its place,—at all events, as rapidly as possible. Of course, in dealings with foreign countries, some other commodity than labor would have to serve as a measure; but I prefer to make the problem as easy as possible for socialists by confining the discussion to the socialistic state within itself. But labor is a very heterogeneous thing, which differs endlessly in its endless varieties; moreover, the same kind of labor, leading even to the same results, requires very different amounts of time and exertion to different individual laborers. Whose labor is to be the common measure of value of commodities and services? When we consider the amount of labor required to produce even the simplest

object, we involuntarily count that labor by the *time* required by the particular laborer to produce it; but the time required by one tailor to make a coat may, from the natural differences of ability, be longer or shorter than the time required by another tailor to achieve the same result. Shall we measure the amount of labor required to make the same kind of coat by the time consumed by a slower or faster workman? This is a rather hard nut for the socialist to crack. Even if each laborer, in the branch for which he is best fitted, were just as skilful and as quick as every other laborer in his line (which is, of course, not true), how will the value of different kinds of labor and their different products be estimated with regard to each other? Or to put the matter as simply and concretely as possible: if, for example, it takes annually 1,000,000 hours of supposedly uniform labor to produce all the hats required by the whole community (say 100,000), and 1,500,000 hours of uniform labor to produce all the coats required (say 100,000) by the community (averaging, say, 10 hours for each hat and 15 hours for each coat), how will the value of the hats and the coats, and the hat-labor and the coat-labor, be estimated with respect to each other? If the socialist wishes to regard all kinds of labor as of equal value according to the *time* required in its performance, he can easily answer that the hat-workers will receive a total of 1,000,000 labor-checks or units of value, the coat-makers will receive 1,500,000 such units of value, each one of the 100,000 hats will have 1 or 10 units of value, and each one of the coats

will have $1\frac{1}{2}$ or 15 units of value.¹ We will recur to this solution later.

There are only two solutions to the problem of values and wages in the socialistic community. The proposals, "an equal share for each laborer" and "to each one according to his wants," need not be considered at all; but the logical conclusion of a reward according to the number of hours of labor is necessarily an equal share for each man. Let us look at the alternatives:

1. Each laborer to receive his reward according to the number of hours he has labored; and this necessarily involves the conclusion that the value of each commodity is to be measured by the number of hours of labor it has cost to produce.

2. Each laborer is to receive his reward, not according to the time consumed, but according to what he produces; and this necessarily involves the problem how the value of his service or product of labor is to be measured.

These are really the only two possible solutions to the problem of value and distribution. I shall now proceed to show that the first one is simply impossible, and that the second one, at the very best, gives us the modern competitive system over again, with its impregnable ruler, demand-and-supply.

¹ As much of the service (like that of managers, teachers, distributors, etc.) does not result in distributable commodities, the units of value would have to be put somewhat higher for the commodities to be distributed, or the total checks proportionally distributed to these laborers would have to be somewhat less than 1,000,000 and 1,500,000 respectively.

I.—*Payment on the Time-basis.*

First let us examine the method of rewarding labor by the hour. The socialists believe that Karl Marx has discovered for them a method by which this can be done. He proposes that we should carefully find out and tabulate statistically the number of hours of social labor it requires to produce any commodity ; we can thus find out how much social labor is required for producing the socially necessary quantity of any commodity. By applying this principle of investigation to all commodities and services, we shall know how much labor is required from each working member of society to produce all the different commodities, and render all the different services which are socially necessary to the community. Even if this giddy task of statistically fixing the demand were possible (and it is not), the question still must be answered, how the labor and the commodities will be measured in value and exchanged for each other. The reward on the basis of the hour *necessarily* disregards different individual *results* of laborers in the same line ; for if the results (or deeds) of each laborer in one line were to be heeded, the time-basis would disappear for such individuals in a group. It also disregards different kinds of labor ; for if one kind of laborers rendered their necessary quota in less time than another kind of laborers, and each man got the same pay as the others, this would again bring in, to some extent, payment by results for each group of laborers, regardless of the time each *group* takes to do

its socially demanded work. Thus, if an average of 1800 hours of labor from each individual hatter were required for all the socially necessary hats to be produced, and an average of 2400 hours of labor from each coat-maker were required to make all the coats socially necessary, each hatter would have less hours of work than each coat-maker ;—and if he were to get the same pay for less hours of labor than the coat-maker, this would be payment for each class by result and not by time. And such equal pay for each individual giver of socially necessary labor would mean a payment by results regardless of the time each socially necessary service took to perform. If it were the same pay, it would mean that the man who had to work longer to produce his quota would get no more than he who had to work less to produce his quota ; and if the average man in one line who took less time to produce his quota were to get less than the average man in another line who took more time, he could only get an equal amount with the other man by helping to reduce the average time all around and working as long as others, by working the remaining 300 hours at some other socially necessary service. We are thus forced to the further attitude in regard to reward on the time-basis by making each laborer work an equal (or an equalized) number of hours with all other laborers at some socially necessary service.¹ Any compromise with this means necessarily a payment by results and not by hours ; whether limits are put on the individual's time or amount of product, or

¹ Of course, with some allowance for the greater difficulty or exertions in some kinds of labor,

whether each man be allowed to contribute as much as he wishes to the socially necessary quota. Payment by the hour brings us face to face with two alternatives:

(a) Each group of laborers may be required to produce its socially necessary quota, and to receive for each man an equal pay, regardless of the time taken by each individual laborer in giving his share of the total service demanded of the group.

If the average number of working hours in which one group renders its group-quota is less than the average number of working hours of another group, and the pay of each man of all groups is to be the same, this would really be pay *by results* for each group (or rather for each individual in his group). The pay would be the same for each man in each group, but it would no longer be pay according to time for one kind of labor compared with another; it would merely be pay according to time for the laborers of each individual group. This plan would make the average social service rendered by each laborer in each group be paid the same, regardless of the average time it took the laborers of different lines to render their service.

Furthermore, whether the group renders its total requisite service faster or slower, the average pay of the individual remains the same. Whether the individual renders his service in his special group faster or slower, whether he produces more or less, his pay remains the same.

(b) The other method of payment would be to let each average hour's labor equal each other average

hour's labor according to the *average product* of each hour's labor; then pay each laborer according to the product of his hour's labor. This levels the averages of all kinds of labor, and pays according to the individual's product in the hour, as compared with the average. Here different kinds of labor get the same pay by the hour, but the product of each individual laborer in an hour is the measure of his payment.

Or the labor of producing each socially necessary quota might be so managed that each man in each group shall work as many hours as every other man, and pay all labor, regardless of results, by the hour.

The important point to bear in mind is that payment on the time-basis necessarily excludes payment by results for the individual; or, if an average product of all kinds of labor is to be equally rewarded by the hour, this means a levelling of all kinds of labor to one single standard, regardless of their different characters; whether different payment be accorded to each individual in proportion to his product in his line compared with the standard average, or whether no regard to different results be had at all. Let us see what such schemes would lead to.

If the time taken for performing a job is the sole basis of payment, then no matter how much more one man produced in his hour, he would get no more pay than his inferior in that line; he would only swell the general average. This would at once annihilate all personal incentive, and reduce all the laborers in all groups to the level of the poorest or slowest

laborer, whose production would be the standard of results. Even if you exacted a standard average, no man would have any incentive to produce beyond that average in his hour. Then if the average hour's labor of one kind of labor were to be rewarded in the same way as the average hour's labor of all other kinds, this would rob persons of natural ability of all incentive to acquire or exercise that higher skill which is so necessary towards production. Furthermore, would there not be a natural tendency in one class of laborers to always suspect that all other classes were not doing their full duty?

Payment by time means the levelling down of all individual production to the productive capacity of the poorest and slowest laborer, for no man will do more than his neighbor unless he gets more for it. In fact, the longer a laborer would take to do anything, the more would his labor and its product be worth.

The socialists may say that this levelling down is right; by not letting the quicker workmen produce more than the average, by the simple process of not giving them more pay for it, you give more laborers a chance to be employed. Whether right or wrong, this is a logical consequence of pay by the hour; that the total amount produced would be produced only by the uniform dead level of the poorest labor. If anyone were to do more in his regulation time he would not get his full addition, but all his inferiors would share in it. Thus payment by the hour logically leads to production by an average dead level measured by what the poorest workmen can do. What would

be the total production under such a system of payment? Undoubtedly very low, and the average to be distributed would be exceedingly low for the individual. With guaranteed employment under such a system, fancy the multiplication of the unfit! The logical conclusion of payment by the hour is thus a total production in which the average product of each has been reduced to that of the poorest laborer. Are socialists prepared to prove that anything more than the barest subsistence for each would be possible, if even that? Are socialists ready to assert that the vast majority are ready to give up their individual productive power, and reduce it for the sake of making room for the incapables? Let us pursue this matter to the end. Under this system, by which the poorest laborer's productive capacity would become that of all others, suppose your average product were to yield but a bare subsistence, or possibly not even that much. How could you increase the product to be distributed? You might increase the hours of labor. And suppose that would not be enough? Then the only way to increase the mass of distributable commodities, or to perform more services for the community, would be for those whose productive capacity is higher than the low, dead level, to produce more, and thus increase the actual quantity of products or services for the community, that is, *to render more services, and to produce more to be distributed among those who produce less.*

The basis of time-reward for the labor may be summarized as follows ;—

1. That *all* labor should be equally rewarded by the hour.

2. That if any man produce more in his hour than another he receive no more for it (hence, he will produce no more).

3. The basis of the productive capacity of the poorest laborer will be the uniform basis of product and average to be distributed (unless the better laborers will generously contribute more than the poorest to the general mass of services and products).

4. That under such a system, based on the lowest individual productive power, the odds are almost infinite that hardly a bare subsistence would be produced for each individual. At least socialists have to prove that *more* than this could be produced at this rate.

5. Hence if such a low, or too low, average is the result, this could only be raised by the voluntary addition of the better laborers to the total product, which means that an extra is to be produced by the class of better workmen to be divided up among all.

6. It is wholly against human nature to accept equal pay for unequal results. It is also against human nature for one man to be willing to reduce his own production and consequent reward simply to allow some one else to produce and get a reward which formerly went to himself. It is against human nature to regard all labor of equal value to itself, or to estimate the value of a commodity by the length or difficulty of labor that has contributed to its production; a thing or a service is regarded to be of

value only because some one wants it, and is willing to pay for it.

7. Hence the scheme of reward by the hour is wholly impossible because it violates the elementary principle of justice, in wishing to give equal rewards for unequal results; of human nature, in supposing that one man will submit to reduce his production and consequent reward in order to enable some one else to produce in his stead and to reap what he used to reap; and of the nature of value, in supposing that any other basis of value for commodities or services can ever exist than demand-and-supply.

II.—*Payment by Results or Deeds.*

Let us now consider the only other basis of the reward for labor, payment by results, regardless of the time it has taken to achieve any result. If socialists propose to reward each social laborer according to his deeds, then the question at once arises, "How will the value of each man's labor be measured?" or more fully, "How will the value of the commodities produced and services rendered be measured in the socialist community?" Some standard measure of exchange or common homogeneous denominator of value is absolutely necessary for both commodities and services. There is no other choice than between a time-estimate of value and a commodity-estimate. As soon as some other measure or denominator of value than time is used for the value of anything, we at once have as the basis of the values of all services

and commodities, demand-and-supply, just as at present.

Now arises, of course, the natural antagonism between the individual on the one hand, and the community on the other, just like the natural antagonism of interests between individual and individual. It is only human nature for the individual to try to obtain from the community as much as possible for his services, just as it is natural for the community to desire to get his services for itself as cheaply as possible. It is idle to object to this statement that, as all workers are members of the same general corporation, they have the same interests; the answer is easy and natural that there are *terms* in every alliance, and no matter who the contracting parties are, the more one is to get from the rest, the less the rest have for themselves. For this reason there will necessarily exist in a co-operative commonwealth rewarding labor by its results the same spirit of competition and bargaining as at present,—individual laborers or groups of laborers making their contracts with the community employer, as they now do with private employers. When one man receives \$200 a week for his services from an employer, it is only because the employer cannot find anyone else who, he believes, will be able to do the work cheaper; the employer pays it because it is worth that much to him. Another man also gets only \$10 a week because his employer cannot get the work done cheaper, and because the laborer cannot command more. Under socialism employing labor and paying it by results the same would occur. The community would pay

that price for which the laborers could be obtained to do the socially necessary work, and it would pay, in its own collective interest at competitive rates, which reduce the cost to the community to the lowest figure for which all kinds of laborers would render the service. It could not in justice to itself do otherwise without favoritism toward one man or one class at the expense of the rest. In the same way it would have to sell to the people from its storehouses of distributable commodities, in the collective interest, at the best prices it could obtain from the individuals purchasing from it.

It matters little to the theory what the medium of exchange may be—whether some one valuable commodity like gold, or unit-of-value checks, convertible on demand for goods at the Government storehouses. The community would thus be one gigantic universal labor-employing and commodity-distributing corporation. It would buy all labor at the market competitive rates, the value and pay of the labor being determined by demand-and-supply, and the higgling of the market just as at present. The demand for the community for each kind of labor would be calculated by the Government, and the supply would be furnished by the laborers desiring to be employed; the price of the labor and commodities would be what the members of the community would be willing to pay for them. In the interests of the collective community the Government would have to see that both sides of the ledger balance as closely as possible; that nothing be produced for which the community does not want to pay; that the cost of producing a neces-

sary commodity be as cheap as possible, and this includes the cost of each kind of labor to the community; that the collective community get the best terms for itself in every transaction with its individual members; and that no member draw anything from the public fund unless he puts into it at least a corresponding equivalent of value.

Thus the whole scheme of socialism, theoretically considered and pursued to its logical conclusion, leads us back at once into the modern competitive system, in which all values of services and commodities are determined competitively by demand-and-supply, almost entirely regardless of other considerations. The government representing the collective interest of the community would be the sole employer of labor.

Under such a system each kind of necessary labor (whether that of a manager, engineer, hod-carrier, or teacher) would be paid the price for which it would be rendered. Unless you paid each kind of necessary labor its price according to demand and supply, that labor would not be given. If but few were able to render a certain kind of necessary labor, the labor of each individual laborer in that line would be more valuable than the labor of some kind which many individuals could do. The relative necessity of an individual to the community alone determines the value of his labor to the community, and nothing else. And if the labor of one particular individual is less important and less necessary to the community than the labor of another particular individual, his labor has essentially less value. The mere existence

of an individual does not render that individual of any value to the community; he is only of value to the community if he can render some service which the community wants and is willing and able to pay for. It does not at all follow, as socialists always assume, that every individual who exists is able to render some service wanted from him; nor does it always follow that because he is able to render a service wanted, society would be willing or able to pay him satisfactory terms.

With demand-and-supply settling the value of everything, including labor, would the position of the wage-earners under socialism be theoretically any different from what it is now? Evidently not. If demand-and-supply were to be more thoroughly canvassed and thus opportunity were equalized, would not the position of those endowed less generously with ability be even worse and more precarious than at present? Would not society be forced in its own defence to eliminate its unfit still more mercilessly than it does at present, and prevent their reckless multiplication? As far as the equalizing of opportunity is concerned, would this occur fairly in the hands of an organized officialdom? And even if this were possible, would not the individual be exposed to still more uncertainty than at present through the corruption, jobbery, incompetence, caprice, and favoritism of the officials, the magnitude and diversity of whose operations would place them entirely beyond effective popular control?

We have shown that the only possible basis of distribution in a socialistic community is one founded

on the ordinary social phenomenon of value of the individual's services, and this value can only be measured, as it now is, by demand-and-supply. This being the case, a successfully and honestly managed co-operative commonwealth would merely be the present system over again. But socialists have never shown, and it is almost inconceivable, that a large community can successfully perform by collective initiative all the various functions of production and distribution, and attend to the innumerable matters of detail now managed by individual interest and initiative. For these reasons the whole scheme of socialism must be relegated to the realms of beautiful and impracticable fantasy, having not the slightest basis of human nature or human experience or economic reason.

CHAPTER VI

SUMMARY OF FACTS AND PRINCIPLES

WE may now summarize the principles and facts explained in this book, as follows:—

✓ 1. There is a natural and ineradicable inequality of ability and character among men.

✓ 2. The prevailing tendency of man is self-interest or egoism, which is the chief main-spring of human effort.

3. The benevolent or altruistic tendency is comparatively weak; and even when strong, finds its positive limits not only within the selfish or egoistic tendency, but within the individual's capacity to indulge it.

4. Owing to the natural selfish tendency, to the limited supply of wealth, and to the limited ability to acquire it, there is an inevitable and natural antagonism between the interests of men.

5. The natural antagonism of interests, with the resulting struggle for ~~personal advantage~~, is nevertheless strongly mitigated by feelings of mutual forbearance, morality, and expediency.

✓ 6. No individual is born with any natural right to a share in the wealth already existing. Were this not true, there would be a natural right on the part of persons to bring into the world as many sharers in

the already existing wealth as they pleased and thus eventually diminish the proportionate share of all. The same principle holds equally with the so-called right to "opportunity."

— 7. No natural right to a livelihood for any individual can be admitted, as this implies a right to support from others if the individual is unable to support himself.

— 8. No natural right to work can be admitted, as this implies that society is bound to give an individual a share in the wealth or opportunities; it implies nothing if there is no work that society demands from an individual.

9. The mere existence of an individual does not mean that society necessarily has any particular use for him.

10. All human calculations in regard to production are necessarily based on very fallible estimates; and these estimates become more uncertain the larger the scale of operations and the more remote the event.

11. The essential economic facts of this planet are of the nature of natural laws whose tendencies cannot be abolished.

12. The available wealth and resources of a community are strictly limited at any one time.

13. That, for the production of wealth, land and labor and capital are necessary in varying quantities; and the quantity that can be produced at any one time is strictly limited by the amount and efficiency of the available land, labor, and capital.

14. That the value of anything (or its exchange-power), whether it be labor or any other commodity,

depends on the effective demand and the available supply, regardless of the exertion required to obtain the commodity, or its utility, or scarcity, or any other consideration.

15. That a rise in the value of one thing signifies a fall in the value of another, and *vice versa*; that only two things, or two groups of things, or one thing and a group of other things, can be compared at one time.

16. That the amount of the rent of land, the interest of capital, and the wages of labor depend upon the effective demand for land, labor, and capital respectively.

17. That rent and interest are based entirely on the right of private property.

18. That all outlays for production are necessarily made out of present wealth; and the future value of the product can only be a matter of calculation. That of the four contributors of production (the suppliers of the land, labor, capital, and management) the reward of at least one must be contingent; that this contingency and risk is, of course, voluntarily assumed by at least one factor; and that this factor, who assumes the risk of future reward, is nearly always either the capitalist or landlord or manager, or two of these, or all three—almost never the laborer.

19. That the law of diminishing returns is an essential fact, and because based on nature itself.

20. That the law of population is a natural tendency controllable only by the individual human will. That under any given condition of resources, only a given population can exist in a given state of comfort, and when the point of diminishing returns is

reached, the average amount of production must necessarily diminish with an increase of population. ✓

21. That the present system of society, based upon the right of property and on the individual initiative, has developed in the course of the evolution of organized society; that its resulting inequalities of wealth and opportunity may be very unsatisfactory to individual members, and that there is much room for improvement, but any experiments in substituting for it an artificial change must first be demonstrated as practical, and likely to lead to more equitable and more desirable results. ✓

22. That existing titles to property may not always be defensible on the grounds of "justice" (whatever that may be), but a disturbance of titles could not be accomplished without committing fresh injustice.

23. That the doctrine of "surplus-value" created by one man and appropriated by another is false in theory, and is contradicted by the commonest observation of facts. ?

24. In spite of local over-population and other drawbacks, statistics prove that the condition of the laboring classes has been, and is steadily, improving; that the annual amount of laborers' wages in proportion to the total annual production is greater than ever before. ✓

25. That any interference with the right of free contract which could compel one man to accept terms not determined by competition, is an interference with the rights of property or with the right of one man to dispose of his services at terms he is willing to accept. To what extent the right of property or of

contract can be interfered with is entirely a matter of expediency, and this, again, depends on the weighing of the probable good or evil to the community resulting from any interference.

✓ 26. The collective ownership of the instruments of production would only be justifiable if it could be shown that collective ownership would result in at least as great a production of wealth as now, or in a greater production, or in a more just distribution of wealth than at present.

27. The supposed saving of rent and interest by collective ownership of the instruments of production could only occur if collective ownership made at least as efficient use of the land and capital as is made by private ownership.

28. That the supposed saving, if possible, would only be very insignificant in proportion to the total amount already paid for wages.

✓ 29. That private ownership of instruments of production, with the consequent rent and interest, gives the cheapest and most economical use of the instruments of production; and the price paid in rent and interest is the minimum cost to the community for the effective guarding of the utility and value of the same; because public ownership is naturally characterised, as experience shows us, by wastefulness, due to the absence or greatly diminished motive of self-interest, and to the inherent inability of governments to make as cheap and economical a use of land and capital as private ownership.

30. That the high wages paid for the services rendered by higher and rarer forms of ability are the

only condition on which the services will be rendered, these high wages being entirely determined by the demand and supply of the requisite abilities.

31. That socialists are bound to explain how their co-operative commonwealth will be conducted in at least its principal details, and to give practical answers to questions of demand-and-supply, production, value, and distribution. ✓

32. That under socialistic co-operation the opportunities and temptations for the frail tendencies of individuals, whether higher officials or common laborers, with the consequent loss and diminution of total product, would be simply infinite, and the power of the community to control or check these frail, wasteful, and dangerous tendencies would be a mere shadow. ✓

33. That there does not exist anywhere the human ability to cope with the gigantic task of conducting the productive and distributive processes of a whole community.

34. That the demand for any commodity or service could never be fixed accurately for a single object owing to natural fluctuations, and that the magnitude and variety of the operation would result in a corresponding magnitude and variety of mistakes and consequent losses. ✓

35. That whenever industries (like the post-office, telegraph, or railroads) are now conducted by the Government, they exist by virtue of being monopolies, which do or do not pay their own expenses of management. When they do pay their own expenses, they generally do so by virtue of the fact that Government

can charge the community more than the service would cost the people if it were left to private enterprise; or when they do not pay their own expenses, that part of the community which makes the least use of the State industry, or none at all, pays a quasi-tax for its maintenance.

36. That society cannot guarantee to any individual employment, because it cannot guarantee to him that it will always want any service from him at all, or that he will be able to render the service it may at any time want.

37. That any attempt to guarantee employment or a livelihood to individuals as such, would necessarily diminish individual incentive and responsibility, increase recklessness, and conduce to over-population.

38. That the failures of humanity from any cause are a burden to the rest of society, and society is bound to prevent this burden from becoming too great through excessive protection of these classes, or from countenancing their reckless multiplication.

39. That the only incentive man has for work is the fear of want, or inability of otherwise obtaining the wherewithal to gratify desires; and any cause tending to diminish this want diminishes the incentive to work.

40. That no system of rewarding labor is possible except one which gives unequal rewards for unequal results.

41. That the value of the results of labor can only be measured by the demand and supply of the results.

42. That the value of any one individual's labor (or the labor of one group of laborers) can only be

measured by the demand and supply of that one individual's labor (or of the labor of that one group of laborers).

43. That no system of society can be artificially constructed or can gradually grow up contrary to the essential human or essential economic facts.

44. The essential facts of human nature and economic life being against any of the proposed socialistic modifications of the present system of society, socialists consequently have no practical scheme to substitute for the present system based on the right of property and individualism, even if in the course of time they actually obtained the political power to attempt any of their proposed changes.



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